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Role of Audit Committee Characteristics and Quality of Financial Reporting in Banks of Pakistan

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Abstract

This study will be carried out to statistically examine the elements of the audit committee and its impact on the quality of financial reporting recorded in Pakistan banks. It used the annual financial statements of fifteen listed banks of Pakistan for the year 2018. The research project developed a correlation research design in this dissertation. The researcher accepted Jones's (1991) adjusted model that presents the measure for profitable management that illustrates financial reporting quality. The hypotheses testing was done with the help of SPSS statistic 22.0. Research outcomes showed that the audit committee's independence negatively influenced management's earnings in listed Pakistani banks. Research approves that the audit team must be fine-assumed and effective. So, as restrict profit management. Repeatedly, we recommend coordination and re-coordination of audit committee members to ensure the significant effects on financial reporting and its quality.

Keywords: Audit Committee, Financial Reporting, Audit Committee Independence, Financial statements.

1 Introduction

Generating reliable and accurate information largely depends on banks' executives, accountants,

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and auditors, as financial reporting is essential to corporate accountability in this industry. According to Kamaruzaman et al. (2009), the primary objective is to present trustworthy data that is correct, relevant, comparable, and thorough. This was stated as the fundamental objective. Previous research has focused on the relationship between corporate governance and financial reporting, particularly the audit committee. (Mateus et al., 2016) are researchers who have highlighted specific aspects of this relationship.

Conforming to generally accepted accounting principles (GAAP) is essential to ensure the financial statements are accurate. However, Johnson et al. (2002) argue that achieving complete freedom from bias in annual financial reports is difficult due to the ongoing estimate of financial phenomena under frequently gloomy settings. Understanding the financial status of a business requires looking at its financial reports, which are significant sources. Investors rely on these reports to help them make educated judgments by evaluating previous and current performance compared to companies in the same industry and the economy.

Even though other sources of financial information are readily available, corporate-provided financial reports continue to enjoy widespread acceptance due to the perception that they are reliable. Audit committees, characterized by independence, meetings, and size, have been demonstrated to strengthen financial reporting over time (Bedard et al., 2004; Beasley et al., 2000; DeZoort & Salterio, 2001). Independence, meetings, and size characterize these committees. However, the effectiveness of audit committees has come under examination in Pakistan, where they have been associated with lapses in oversight duties, leading to the collapse of financial institutions and challenges inside government organizations (Umobong & Ibanichuka, 2017). In this context, audit committees have been linked to the problems above. As a result, this study's purpose was to evaluate the relationship between the characteristics of audit committees and the quality of financial reporting in commercial banks in Pakistan.

According to (Oyeshola et al., 2022), the International Accounting Standards Board (Durate et al., 2015) and the Financial Accounting Standards Board (FASB) are the two organizations that set the standards for accounting information and provide an explanation of the methodologies for review and financial analysis. In financial reporting, the study emphasizes the audit committee's function in analyzing financial statements and assuring conformity to accounting rules (Wen et al., 2023). This position aligns with the processes of effective corporate governance. This study aims to discover factors that influence the qualitative features of the financial reporting system in Pakistani banks by examining the audit committee's influence beyond its monitoring job. This will be done by analyzing the audit committee's influence beyond its monitoring role.

1.1 Significance of Study

The International Accounting Standard Boar (Durate et al., 2015)and the Financial Accounting Standards Board (FASB) state the useful accounting information standards as well as describe the method of evaluation and financial analysis (Oyeshola et al., 2022). Therefore, here is a discussion about the financial reporting system, identifying audit committee expertise to analyse financial statements. Good corporate governance depends on overseeing the financial reporting through the audit committee, further disclosure process and monitoring the accounting principles followed by management (Wen et al., 2023). This study examines the part of the audit committee in the qualitative process of the financial reporting system in banks of Pakistan. Also, it identifies the influencing factors from outside the monitoring role and characteristics of the audit committee.

2 Literature Review

2.1 Theoretical Framework

This study's theoretical foundation is based on the necessity of corporate organization, drawing on important ideas such as agency and institutional theories. The research was carried out in the United Kingdom. The lens of stakeholder theory is being employed to obtain a more comprehensive understanding despite these theories having supplied essential insights (Freeman et al., 2021). The agency theory, which emphasises the natural competition of interests between managers and firm owners (Jensen & Meckling, 1976), is crucial in defining the connection between the audit committee and financial reporting. This is because the agency theory emphasizes the natural conflict of interests between managers and firm owners.

The agency theory is predicated on the principal-agent connection; nevertheless, it emphasises the system's requirements more than the processes utilized (Stolowy & Breton, 2003). In spite of this, the concept does garner some pushback from members of the scientific community. A recent publication by (Gwala & Mashau, 2023) sheds light on agency theory's ever-evolving nature and its numerous objections. A more sophisticated understanding of the topic's importance can be achieved via investigating and assessing these points of view.

The principal-agent connection that may be found within organizations was the focus of the seminal research project that Jensen and Meckling carried out in 1976 and which served as the theoretical foundation for agency theory. According to this view, conflicts of interest occur when the objectives of principals (such as owners or shareholders) and agents (such as managers or employees) are in direct competition. The theory emphasizes the requirement for mechanisms to align these competing interests and guarantee that agents will always behave in the principals' best interests.

Zogning (2022) points out that agency theory is concerned with the systemic needs of organizations. Rather than prescribing particular systems, they emphasize the general requirements for efficient governance. It acknowledges the fact that various organizations may use a variety of procedures to address agency problems based on the specific settings and challenges faced by those organizations.

(Bendickson et al. (2016; Moore, 2016) have investigated the ever-changing character of agency theory and given critiques that require considerable examination on the part of the reader. These critiques shed light on areas where the theory may be lacking or require further refinement. While agency theory has been a core framework in organizational economics, these critiques highlight areas where the theory may be lacking.

Further, one objection questions the theory's assumption that it has all relevant information (Nwajei et al., 2022). The argument put up by detractors is that in situations that occur in the real world, information is frequently asymmetrical, which makes it difficult for principals to monitor and govern agents completely. Because of this, a detailed knowledge of the information dynamics within agency interactions is required.

Another criticism focuses on the excessive reliance on monetary incentives as the major mechanism for coordinating parties' goals and objectives (Araya, 2023). Some people believe that the most important factors in determining agent behaviour are factors that are not financial in nature (Andreou et al., 2022). These factors include work satisfaction, corporate culture, and intrinsic motivation. This demonstrates the importance of taking a more comprehensive strategy when dealing with issues pertaining to agencies.

A school of thought among academics contends that agency theory ignores social and behavioural elements that impact decision-making (Handayani et al., 2022). It's possible that factors like human behaviour, social conventions, and ethical considerations can have a substantial impact on how well governance processes work. The theory's explanatory power can be improved by incorporating findings from the field of behavioural economics.

The applicability of agency theory can be understood in a more nuanced manner by doing a critical analysis of the various perspectives presented here. It encourages academics and professionals in the field to think about the assumptions and limitations of the theory, which helps to establish a continual discussion for the purpose of improving it. Researchers are prompted to investigate complementary theories and frameworks that may offer better insights into the complexity of the principal-agent relationship due to the critiques. This is because the critiques acknowledge the ever-changing nature of organizational dynamics. (Opu & Indriakati, 2022) and Okafor (2018) have recently published research that offers updated perspectives on agency theory and stakeholder theory, respectively. These studies investigate the most recent criticisms and developments in the field, and as a result, they offer a more comprehensive review of the relevant literature.

It is possible that if you explicitly tie agency theory to the role that audit committees play and how they operate, you will have a more consistent story. Investigating, for instance, how the forms and functions of audit committees precisely address the conflicts defined in agency theory, such as knowledge asymmetry and moral hazard, is one good example. This connection helps bridge the theoretical underpinnings and practical ramifications, offering a clearer picture of the interplay that exists between agency theory and the dynamics of audit committees.

Additionally, the corporation, in conjunction with the board of directors and any external auditors, is responsible for selecting the members of the audit committee, which plays a crucial role in conducting independent evaluations of corporate problems. According to Appah (2011), the development of audit committees since the 1970s shows a significant shift in the organizational structures responsible for corporate governance.

Expanding on the topic, Islam M. N. Bhattacharjee (2010) contends that audit committees reduce management agency difficulties, such as controlling financial statements for greater bonuses, improving the quality and reliability of audited financial statements. This is said to be the case because audit committees prevent management agencies from manipulating financial statements to increase their bonuses. Recent research, such as that conducted by (Zadeh et al., 2023), provides up-to-date insights on audit committees' influence on the management of earnings.

Integrating insights from contemporary research, such as the work of Kaoje (2023), into the discussion of the operational and regulatory role of audit committees has the potential to increase the depth and relevance of the literature study. This would provide a clearer and more up-to-date understanding of audit committees' role in managing operational, financial, and compliance risks.

It is possible to further strengthen the literature study by explicitly connecting the theories covered, for example, by describing how agency theory influences the role and functioning of audit committees. Investigate, for example, how the conflicts indicated in agency theory, such as information asymmetry and moral hazard, are addressed by the structures and functions of audit committees to better understand how these issues are resolved. Readers can better comprehend the theoretical frameworks being examined and their implications for practice because of this interaction.

Including fresh research can offer significant insights into the evolving governance landscape and the difficulties audit committees confront, which can improve and complete the analysis of pertinent literature. This can be achieved by offering insightful information about the ways in which governance structures are evolving and the problems that audit committees encounter. (Hendrati et al., 2022) contribute to the ongoing discussion by examining how governance arrangements—which are influenced by agency theory—have an effect on audit committee effectiveness. They shed light on the ways in which agency theory shapes these arrangements by doing this. Their findings might shed some light on the complex interactions that exist between the functions of audit committees in organizations and the dynamic governance structures. Then, that would be quite advantageous.

In addition, the study carried out by (Donald et al., 2022) offers a way to investigate the contemporary problems that audit committees encounter in the contemporary business environment. To properly appreciate the changing function of audit committees and their performance, one must have a firm grasp of the particular problems that they face in the contemporary setting. It is expected that the study carried out by Donald will offer helpful understandings of the intricacies of these issues in addition to workable solutions.

It is anticipated that research on the impact of governance structures on audit committee operations will be done by (Turley & Zaman, 2004). They will offer nuanced perspectives on how audit committees respond to modifications brought about by agency theory. This could entail talking about things like committee composition, the role of independence, and how committees affect financial reporting procedures.

On the other hand, (Masli et al., 2023) may be able to throw light on the modern issues encountered by audit committees by taking into consideration factors such as developments in technology, changes in regulatory policies, and alterations in the global economic landscape. This study has the potential to provide a modern lens through which to gain an understanding of the challenges that audit committees face when attempting to execute their responsibilities in the modern-day business environment.

Lastly, the preparation of financial reports, which must include the fiscal year and the date of the audit report, is an essential part of financial accounting. Mainoma (2002) places a strong emphasis on the significance of users' ability to acquire financial information in the context of the decision-making process.

Expanding on what has been said, financial reports play an essential part in healthy financial markets by mitigating the effects of information abnormalities, enhancing the pricing of securities, and providing justification for both internal dealings and market rumors (Rubab et al., 2023). According to Abdullah et al. (2010), there is a risk associated with delayed disclosure of an auditor's view on financial information. This highlights the need of providing investors with information that is up to date.

Recent research, such as that which was conducted by (Asyik et al., 2023), has the potential to offer up-to-date insights on the function and significance of financial reports in today's financial markets. The issue can be given more depth and perspective by investigating criticisms and developments in the field of financial reporting using sources such as (Ahmed et al., 2023; Kabwe, 2023).

Agency theory, which is based on the principal-agent relationship, has a lot to say about financial reporting (Gyamera et al., 2023). Effective governance procedures are necessary in the setting of enterprises because of the inherent conflicts of interest between shareholders, who act as principals, and managers, who act as agents. Agency theory drives companies to create structures, including audit committees that balance managers' and shareholders' interests in the field of financial reporting (Arslan & Alqatan, 2020). Ensuring the quality and dependability of financial reports depends on this alignment. To demonstrate how agency theory affects the independence, makeup, and decision-making procedures of audit committees—and therefore affects the caliber and timeliness of financial reporting—specific situations could be studied.

Stakeholder theory broadens the scope by taking into account a wider range of entities than shareholders and highlights how important it is to meet the needs of different stakeholders (DesJardine et al., 2022). Stakeholder theory suggests that firms should take into account the interests of other stakeholders, including consumers, employees, and the community, in addition to shareholder interests when it comes to financial reporting (Valentinov & Chia, 2022). This approach might result in reporting procedures that prioritize sustainability, ethical issues, and transparency. Through examining instances in which entities integrate stakeholder theory into their financial reporting procedures, a comprehensive comprehension of the various effects on the caliber and promptness of reports can be acquired.

2.2 Audit Committee

Audit committee is a board which is selected by the company that engaged with board of directors & also external auditors, this usually consists of more members of independent directors and is projected to assess the corporation's matters in a separate and detached method" (Habbash, 2010). Audit Teams were comparatively in frequent till 1970s, while big companies improved its intended creation (Appah, 2011). For example, the usage of audit committees enlarged, researchers have several progressive concerns almost absence of relevant accounting, auditing and business authority information and skills between audit committee members (Appiah, 2010). Islam M. N. Bhattacharjee, (2010) contends that an audit committee is one method to condense management encouragement problem – for example controlling financial statements to get higher bonuses. Therefore, actual audit committees improve the quality and reliability of yearly audited financial statements. Earnings management has negative relationship by capability, and numerous conferences of audit committee. Defiantly, concluded which occurrence of audit committee did not condense to manage profits for increasing income.

The audit committees and active internal control system support to accomplish operational, financial, agreement risk and also "improves quality of financial reporting". And also give the financial results to general public. For clarifying shareholders interest and for making the management system easy, audit committee plays a vital role. Audit committee is responsible for checking financial results and also responsible for the effectiveness of the firm's internal controls, appropriative of internal audit and risk managing system (Hossain, 2007).

2.3 Financial Reports

Literature explores the financial reports, fiscal year and audit report date which have been established. Significant qualitative feature and an important factor of financial accounting is financial reporting (Glautier, 2001). The requirement of financial information is to be accessible for its users to make business financial report evidence related decision-making process envisaged by (Mainoma, 2002).

Financial statements are necessary to report for strong financial marketplaces. Financial report plays a vital role in decreasing distribution of irregular information, in pricing of securities improvement, and through justifying internal dealing and rumors in market (Rubab et al., 2023). Financial report improves worth of financial data. The worth of financial information is to make the financial report accessible for external users (Khasharmeh et al., 2010). From year end to the audit report, risks the excellence of financial report is not proving information timely to investors. Late disclose of an auditor's view on results about financial info organized through managing worsens information irregularity also rises risk of investment decisions (Abdullah, N. et al., 2010).

3 Methodology

3.1 Sample Selection

The National Bank of Pakistan, MCB Bank, Habib Bank Ltd., Askari Bank, and United Bank Ltd. are the five major Pakistani financial institutions that serve as the focus of this research's sample selection. Because of their significance on the Pakistan Stock Exchange (PSE), these banks were selected to serve as a representative sample for the study.

3.2 Collection of Data

The data required for the study were obtained from secondary sources, more especially the financial reports of the institutions that were mentioned. Because it represents the most recent set of finished accounting records for the selected banks, the fiscal year 2018 was picked as the one to be analyzed. This guarantees that the necessary financial data for the study is both available and easy to obtain.

3.3 Methods of Data Analysis

The research design makes use of the Pearson Correlation in order to ascertain the regression coefficient of the model. In addition, linear regression is utilized to estimate the influence of Audit Committee Characteristics on the Quality of Financial Reporting, with earnings management being assessed by discretionary accruals. This is done so as to determine how the Audit Committee Characteristics affect the Quality of Financial Reporting.

3.4 Validity and Reliability of the Data

In order to alleviate any possible worries regarding the validity and reliability of the data, the research uses well-established financial reporting data obtained from the official reports of the banks. The credibility and dependability of the data are both improved when they are used in conjunction with financial information that is both credible and standardized.

3.5 Justification of Statistical Methods

These techniques are applicable for assessing the relationships between variables and determining the impact of predictor factors on the response variable, which makes the choice of statistical methods, such as linear regression and Pearson correlation, justified. The chi-square test and the Spearman correlation are two more statistical techniques. These approaches provide trustworthy statistical insights and are widely accepted in the field of finance research.

3.6 Potential Issues and Elements to Consider

Any potential issues that can affect the study's validity and reliability must be identified and fixed in order to uphold the high requirements of methodological rigor.

Data Completeness and Accuracy: Verify the accuracy and completeness of the financial information obtained from secondary sources regarding the company. Omissions or inconsistent data could have an impact on the study's conclusions.

Financial Reporting Standards That Align With One Another: It is must to ensure that the financial reporting requirements are in line with one another, considering the breadth of the investigation, which involves multiple financial institutions. Differences in the methods employed to report the data could be the source of data variability.

External Factors: Consider the various external factors that may have an effect on financial reporting, such as shifts in the standards imposed by regulatory agencies or variations in the state of the economy. These external factors have the potential to confuse the relationship between the qualities of the audit committee and the quality of financial reporting.

Additional Factors to Consider from a Statistical Standpoint

Consider implementing several statistical tests to ensure the robustness and validity of the model in addition to the Pearson Correlation and linear regression. Methods such as multicollinearity tests, heteroscedasticity tests, and goodness-of-fit metrics are examples of techniques that can provide a more in-depth analysis of the model's reliability.

Table 1: Variables Measurement

Variables	Label	Measurement
Criterion Variable		
Discretionary accruals	DAC	Determined by means of Jones (1991) modified model
Predictor Variables		
Audit committee independence	ACI	Assigned one (1) if all the members remain independent and if otherwise assigned zero (0).

3.7 Methods of Data Analysis

In the view of research design, the Pearson Correlation applied to determine the regression coefficient of the model whereas the linear regression utilized in order to estimate the influence of explanatory variable (i.e. Audit Committee Characteristics) on the response variable (i.e.

"*Quality of Financial Reporting) represented by earnings management and measured by discretionary accruals*".

3.8 Operational Measurement of Variables

Audit committee size	ACS	proportion of memberships
Audit committee number of meetings	ACM	Aggregate of meetings held in a period
Audit committee financial expertise	ACF	Assigned one (1) if some of the members have relevant and recent financial experience and assigned (0) if otherwise.

The modified Jones model is shown below:

$$TA_t = NDA_t + DA_t$$

Total accruals

$$TA_t = \frac{\Delta CA_t - \Delta CASH_t - \Delta CL_t + \Delta STDEBT_t - DEP_t}{A_{t-1}}$$

Where:

TA_t $= total\ accruals$
ΔCA_t $= current\ assets\ in\ year_t\ less\ current\ assets\ in\ year_{t-1}$
$\Delta CASH_t$ $= cash\ and\ cash\ equivalents\ in\ year_t\ less\ cash\ and\ cash\ equivalents\ in\ year_{t-1}$
ΔCL_t $= current\ liabilitites\ in\ year_t\ less\ current\ liabilities\ in\ year_{t-1}$
$\Delta STDEBT_t$ $= short\ term\ debt\ in\ year_t\ less\ short\ term\ debt\ in\ year_{t-1}$
DEP_t $= depreciation\ and\ amortization\ expense\ during\ year_t$
A_{t-1} $= total\ assets\ in\ year_{t-1}$

NDA (Modified-Jones model)

$$\boxed{NDA_t = \propto_1 \left(\frac{1}{A_{t-1}}\right) + \propto_2 (\Delta REV_t - \Delta REC_t) + \propto_3 (PPE_t)}$$

Where:

ΔREC_t $= net\ receivables\ in\ year_t\ less\ receivables\ in\ year_{t-1}\ scaled\ by\ total\ assets_{t-1}$

3.9 Model Specification

The audit committee's independence, size, frequency of meetings, and financial knowledge are all predictor factors in the analytical model developed for this study, and the criterion variable is earnings management as measured by discretionary accruals. This study quantified model, for ascertaining the influence of characteristics that audit committee have on the worth of financial reporting of the listed Pakistani banks as follows:

DAC=f (ACI, ACS, ACM, ACF

DAC = β0 + β1 ACI + β2 ACS + β3 ACM + β4 ACF + Σ

Where:

ΔGEit = Variation in Gross earnings as of time t –1 to t

ΔNLit = Change in the analysis of total loans and Advances and nonperforming loan

As of time t–1 to t to reflect variation in Net Loans (ΔNL)

PPE = Gross property, plant and equipment

Σ = error term/random term

Gross Earnings (GE) = Interest Income (IINC) + Fee Commissions (FCOM) + Foreign Exchange Income

(FOREXINC) + Trusteeship Income (TINC) + Investments Income

(INVINC) +

Share Income (SHINC) + Other Income (OINC)

Net Loan (NL) = Total Loans (TL) – Non-Performing Loans (NPL)

DAC	Discretionary accruals
DAC	Discretionary accruals
β0	Intercept
β1 – β4	Coefficient of predictor variables
ACI	Audit Committee Independence
ACS	Audit Committee Size
ACM	Audit Committee Number of Meetings
ACF	Audit Committee Financial Expertise
Σ	Error term/random term

4 Results and Discussion

In this study examined and took the results become through tests directed about data collection for research. This study has followed by the implications through analysis and the test of hypotheses communicated for this research. Pearson Correlation statistical instrument is accepted by the researcher and linear regression study was focused about use of SPSS statistic 22.0. About the period of this study extending from 2014 to 2018, the following table provides minimum, maximum and mean values in adding to the standard deviation of variables hired in this statistical representation. It can be discovered above that, starting with the mean, indicating the usual condition of variables, i.e. Discretionary Accruals (DAC) which represents in the absolute figures could be seen to get the average mean of 0.124522. Along with the support of these dummy variables (1 and 0) the Audit Committee Independence shows output on average of 0.933334 which is highly close to 1.

	N	Minimum	Maximum	Mean. Sta	Std. Error	Std. Dev
ABVDAC	75	0.019	0.8743	0.124522	0.0146901	0.1272211
ACI	75	0	1	0.93332	0.0289972	0.2511235
ACS	75	6	7	6.066666	0.0289972	0.2511236
ACM	75	2	5	3.853332	0.1034432	0.8958361
ACF	75	0	1	0.933334	0.0289973	0.2511237

4.1 Bivariate Analysis

Through this analysis the association level between variables and the movement direction among them as shown in table 4

Table 4 – Correlation Analysis

Variables	ACI	ACS	ACM	ACF
Per Correlation	-0.017	0.008	-0.001	-0.128
Sig. (2-tailed)	0.886	0.943	0.993	0.275

This suggests a weak and insignificant link in between audit committee independence and discretionary accruals i.e. negative output -0.017 on 0.886 significant levels which is greater than 0.05. This shows that, there lies insignificant, and a negative association between discretionary, anomalous accruals with the independence of the committee. As a result, it is unlikely that increasing the audit committee's independence will affect the discretionary accruals of the authorized traded banks, and decreasing the audit committee's independence won't logically lower the level of discretionary accrual.

4.2 Regression

This study also shows the impact of analyst on standard through executing an analysis of regression as showed in Table 5. Following table showed the summary of model extracted from SPSS analysis 22.0 outputs.

Table 5 – Regression Analysis

Variables	R	R-Square	B	Std. Error	F	T	Sig
ACI	0.17	0.000	-0.007	0.058	0.020	-0.142	0.888
ACS	0.008	0.000	0.005	0.059	0.006	0.071	0.942
ACM	0.001	0.000	0.000	0.018	0.000	-0.009	0.992
ACF	0.128	0.15	0.067	0.059	1.207	-1.098	0.276

Exploiting audit committee’s independence through the explanatory variable and the response variable. The correlation coefficient, or R, in the table above indicates a weak justification of 0.018, although the most significant variable, R square, displays a result of 0.000. On the other side, Analysis of Variance table (ANOVA) presenting the insignificant level of regression i.e. 0.888, even though the coefficients indicate that the Audit Committee's independence have a negative movement of -0.007 and it has a minor confusion level as evidenced by its standard error i.e. of 0.058 and the result was demonstrated via the score of t-statistics coefficient to be insignificant according to statistics. of -0.142 at the 0.888 level of significance which is more than 0.05 level of significance.

4.3 Testing of Hypotheses

The variables of this study are tested statistically below as shown in the null form.

H1: In this study H1postulates that there lies insignificant effect of audit committee objectivity on earnings management of Pakistan Banks. This study judged the significance level of 0.888 that is more significant than a threshold level of 0.05 through utilizing the regression outputs on above. Therefore, this study supports the null hypothesis and comes to the view that the independence of the audit committee has little impact on how revenues are overseen in Pakistan Banks during the research period.

5 Discussion of Findings

The meticulous investigation of how predictor variables influence the dependent variable offers insight on critical dynamics within audit committees as well as their impact on financial reporting methods. An important discovery is that the independence of audit committees has a negative impact on earnings management. Committees in Nigerian banks that have more independence from management tend to reveal economic data with less revenue buffering, which is a significant result. This sheds light on the intricate dynamic between the audit committee's autonomy and the openness of financial reports.

An unusual discovery on the decentralised form of audit committees in Pakistani banks has been brought forth due to the study, which contradicts what was anticipated. Even though they are decentralised, the committees do not appear to significantly impact the financial monitoring of the industry as a whole, at least not during the period that was investigated. This suggests a reevaluation of the anticipated effects of audit committee structure on profits management in the Pakistani banking industry and urges a more nuanced examination of the causes at play. This prompts a reevaluation of the anticipated effects of audit committee structure on earnings management in the Pakistani banking sector.

The primary goal of the study was to investigate the effects of audit committees on the financial reports of a selection of firms listed on the Pakistan Stock Exchange (PSE) between 2014 and 2018, and the findings provide significant insights. The fact that there is a correlation between the audit committee's independence and the financial reports' reliability is evidence of the critical function that committee independence plays in determining the degree to which financial information may be trusted. Nevertheless, it is vital to note that the variances in the results may result from the selected statistical methods, the specific timeframe, and the investigation's scope.

On the other hand, a compelling narrative emerges from examining the "efficiency of the audit committee, the quality of the audit, and profitability management" for non-financial firms listed on the Pakistan Stock Exchange between 2014 and 2018. The complex nature of the interaction between the dynamics of audit committees, the quality of audits, and profitability management is shown by the negative association between committee independence and discretionary accruals, which serves as a proxy for earnings management.

It is essential to enhance our comprehension and to investigate the implications of these results comprehensively. The linkages that have been identified shed light on the complex structure of the dynamics of audit committees and the substantial consequences these dynamics have for the practices of financial reporting. Transparency may be maintained, and a critical analysis of the study's limitations can be encouraged if any flaws in the study design, data collection process, or potential biases are acknowledged.

Understanding the importance of the findings in a broader context requires making connections between them and earlier research and practical applications. This study confirms the complex relationship between audit committee dynamics and financial reporting procedures, which aligns with other research conducted.

The fact that this study is consistent with previous research highlights its significant contribution to confirming the complex relationship between audit committee dynamics and financial reporting procedures. Numerous research investigations have investigated this crucial nexus, laying the groundwork for better comprehending the complexity and nuances. An in-depth investigation of these studies not only contributes to enhancing the academic discourse but also provides valuable insights into the ever-changing nature of audit committees and their influence on the visibility of financial information.

The critical work of (Abdulla & Elshandidy, 2023) laid the groundwork for agency theory, highlighting the inherent conflicts of interest between managers and shareholders. This theoretical viewpoint has been beneficial in directing the direction that research on audit committees has taken, highlighting its function as a device to reduce agency problems and improve the quality of financial reporting.

Further, the research conducted by (Wahdan et al., 2023) focused on the size of audit committees and emphasised the influence that size has on the quality of financial reporting. According to their findings, more prominent audit committees are related to more vigorous oversight and a more robust control environment, ultimately leading to superior financial reporting procedures.

Moreover, a (2023) study determined the connection between the independence of audit committees and earnings management. Their research provided more evidence to support the hypothesis that independent audit committees are crucial in limiting earnings management tactics, contributing to the body of scholarly work that argues for the significance of committee autonomy.

Besides, the research conducted by (Gardi et al., 2023) dug deeper into the more general concept of corporate governance and its influence on financial reporting. Although it did not just concentrate on audit committees, it emphasised the interaction between governance institutions, such as audit committees, and the quality of financial disclosures.

Likewise, the research conducted by (Hasan et al., 2020) investigated the function of audit committees within the context of the qualitative aspects of financial reporting. According to their findings, the efficiency of financial reporting appears to be inextricably connected to the scrutiny provided by audit committees. This is consistent with the current study's focus on the essential part that independence plays in audit committees.

In light of this previous research, the new study not only lends support to previously established ideas but also offers nuanced insights into the specific banking settings in Nigeria and Pakistan. The confirmation of the detrimental effect of audit committee independence on profits management in Nigerian banks (Kaoje et al., 2023) and the unanticipated decentralized character of audit committees in Pakistani banks (Haris et al., 2019) offers vital empirical evidence to the broader discussions began by the studies as mentioned earlier. These studies were initiated due to the findings presented in the studies above.

In a practical sense, businesses can use these combined findings to shape governance structures, emphasizing the requirement for independent and well-trained audit committees to improve the quality of financial reporting. Future studies in this field can continue to build on these foundations by investigating other contextual elements and expanding our understanding of how audit committee dynamics influence financial transparency in various scenarios.

The necessity for organizations to consider the autonomy of audit committees in establishing financial transparency is one example of a practical application. Another example is the importance of continual training for committee members to strengthen their influence. These findings contribute to the academic discourse and provide businesses looking to enhance their financial reporting procedures and governance structures with insights that they can put into action. These insights can serve as a foundation for subsequent studies that can help us better understand how the function of audit committees in financial oversight is evolving.

5.1 Recommendation

First, create and implement clear ethical codes for effective corporate governance, precisely outlining expectations for the organization's management, administration, and higher authority staff. Effective corporate governance is essential to the success of any business. The commitment to ethical standards, openness, and accountability should be emphasized throughout these codes regarding financial reporting. Secondly, make it a priority to ensure that the audit committee members have a solid understanding of the bank's financial statements. This could be accomplished through specific educational programs, workshops, or instructional sessions geared toward enhancing the financial literacy of committee members.

Third, it is essential to recommend training and orientation programs for audit committee members to be better equipped with the expertise and information they need to make a substantial difference in the quality of financial reporting. Due to this approach to continual learning, the committee members will be given the tools they need to efficiently carry out their responsibilities. Fourth, advocate for solid sanctions for banks that breach disclosure rules and request that regulatory agencies impose these sanctions. These sanctions should be a powerful deterrence against tactics that mislead investors regarding their financial situation. The seriousness of the sanctions has to be commensurate to the nature and extent of the infractions committed.

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