Report On

Exploring the Impact of Audit Committee Effectiveness on Audit Report Lag

By

Rezuanur Rahman Fahad
21104095

An internship report submitted to the BRAC Business School (BBS) in partial fulfillment
of the requirements for the degree of
Bachelor of Business Administration

BRAC Business School
Brac University
February 2025

Declaration

It is hereby declared that

1. The internship report submitted is my/our own original work while completing degree at Brac University.
2. The report does not contain material previously published or written by a third party, except where this is appropriately cited through full and accurate referencing.
3. The report does not contain material which has been accepted, or submitted, for any other degree or diploma at a university or other institution.
4. I/We have acknowledged all main sources of help.

Student's Full Name & Signature:

Rezuanur Rahman Fahad
21104095

Supervisor's Full Name & Signature:

Dr. H. M. Arif
Assistant Professor, BRAC Business School
Brac University

Letter of Transmittal

Dr. H. M. Arif

Assistant Professor,

BRAC Business School

BRAC University

KHA 224, Pragati Sarani, Merul Badda, Dhaka 1212

Subject: Submission of Internship Report

Dear Sir,

I am pleased with and grateful to the Almighty for the opportunity to complete and submit my internship report, which reflects my work experience, learning and research during my internship period at ACNABIN Chartered Accountants. Under the supervision of Mr. Saif Hossain, Assistant Director at ACNABIN, I have been able to gain invaluable practical knowledge about audit procedures and practices at one of Bangladesh's leading chartered accountancy firms.

This report provides an overview of my role as an intern, the operations of ACNABIN, and my project on the topic "**Exploring the Impact of Audit Committee Effectiveness on Audit Report Lag"**

I am sincerely grateful for your guidance and support throughout the preparation of this report. I hope that my work will meet your expectations and provide a meaningful contribution to the academic and professional community.

Thank you for your kind consideration.

Sincerely yours,

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Rezuanur Rahman Fahad
21104095
BRAC Business School
BRAC University
Date: **February,** 28, 2025

Non-Disclosure Agreement

This agreement is made and entered into by and between ACNABIN Chartered Accountants and the undersigned student at Brac University, BRAC Business School

…**Rezuanur Rahman Fahad**….

As per the agreement, the information included in this report is solely for internship purposes and is not to be used or shared anywhere.

Acknowledgement

I am sincerely grateful to the Almighty Allah for granting me the strength and opportunity to complete my internship and this report successfully.

I am particularly thankful to my university professor and supervisor, Dr. H.M. Arif, for his valuable guidance and encouragement throughout this project. His support in helping me select the project topic, form the problem statement, and establish the research methodologies necessary for this report has been extremely helpful. His feedback and constructive advice at every stage allowed me to approach the project with clarity, which greatly improved its quality. I am also grateful to my co-supervisor, Dr. Md. Kausar Alam, whose assistance have been valuable, offering ideas that enriched my analysis and contributed greatly to the overall work.

My cordial appreciation goes to my organizational supervisor, Mr. Saif Hossain, Assistant Director at ACNABIN Chartered Accountants, for his guidance and for providing a supportive environment during my internship period. Besides, I am really grateful to my Mohammad Aminul Haque, FCA, the Managing Partner of ACNABIN. He gave me the opportunity to be part of his meetings with the audit team and share his insights, provided reviews and instructions, which were really helpful for developing an understanding of audit procedures.

Finally, I express my appreciation to all other audit team members who have supported me throughout this journey. This internship experience at ACNABIN Chartered Accountants has been invaluable, and I am thankful for the opportunity to apply my academic knowledge in such a professional setting.

Executive Summary

This report consists of three chapters; and the first chapter provides introduction to my internship experience at ACNABIN Chartered Accountants, work details and description of my job experiences, benefits, problems and difficulties etc. The second chapter gives an overview of ACNABIN, their overall structure and brief discussion on each functional area, such as management, marketing, finance and accounting, operations and overall analysis of their external environment. Finally, the key highlight of this report is project report that explores the relationship between audit committee effectiveness and audit report lag.

It provides introduction to audit report lag (ARL) in the pharmaceutical sector in Bangladesh, outlining its significance and the study's objectives. Followed by a literature review that examines previous research on the relationship between audit committee characteristics (independence, tenure, and financial expertise) and ARL. The data analysis part using multiple regression to shows how audit committee independence, tenure and financial expertise are related to audit report lag and how much of the variable in ARL is explained by variation in these factors. The report concludes by summarizing the key findings, acknowledging the study's limitations, and suggesting areas for future research.

Keywords: Audit report lag (ARL), Audit committee, Audit committee effectiveness,

Independence, financial expertise, tenure within the audit committee, internal audit.

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List of Acronyms

ERP	Enterprise Resource Planning
ARL	Audit Report Lag
CA	Chartered Accountant
BSEC	Bangladesh Securities and Exchange Commission
FCA	Fellow Chartered Accountant
SWOT	Strength, Weakness, Opportunity and Threat
IFRS	International Financial Reporting Standard
ICAB	Institute of Chartered Accountants Bangladesh
AIS	Accounting Information System
SOP	Standard Operating Procedure
LLP	Limited Liability Partnership
NGO	Non-Government Organization
NPO	Non-Profit Organization
CRM	Client Relationship Management
FRA	Financial Reporting Act
FCS	Fellow Chartered Secretary
FCMA	Fellow Cost and Management Accountant

Glossary

Audit Report Lag	The time taken between the end of a company's financial year and the date when the audit report is published.
SWOT Analysis	A method used to assess a company's Strengths, Weaknesses, Opportunities, and Threats to understand its position in the market.
Regression Analysis	A statistical method used to understand the relationship between one dependent variable and one or more independent variables.
Internal Audit	An independent evaluation process within an organization to assess and improve the effectiveness of its risk management, control, and governance processes.
Audit Committee	A sub-committee of the board of a company responsible for overseeing financial reporting, auditing processes, and compliance with legal and regulatory requirements.
Descriptive Statistics	Statistical techniques used to summarize and describe the features of a dataset, such as the mean, median, and standard deviation.
Correlation analysis	A statistical method used to measure and describe the strength and direction of the relationship between two variables.

Chapter 1: Overview of Internship

1.1 Student Information

Name: Rezuanur Rahman Fahad

Student ID: 21104095

Department: BRAC Business School

Program: Bachelor of Business Administration

Major: Accounting

1.2 Internship Information

1.2.1 Employment Details:

Internship Period: 8th October 2024 to 7th January 2025

Firm name: ACNABIN Chartered Accountants

Department: Internal Audit

Address: BDBL Bhaban (Level 13) 12 Kawran Bazar Commercial Area Dhaka-1215, Bangladesh

1.2.2 Internship On-site Supervisor:

Supervisor Name: Saif Hossain

Designation: Assistant Director, Audit & Consultancy

1.2.3. Job Responsibilities

As an audit associate on the internal audit team for SpaceZero and VolumeZero Limited, my primary responsibilities were to test the internal controls, assess the accounting and recording practices within these companies. Both entities, privately owned by Mohammad Foyez Ullah, operate in the construction and interior design sectors. Under the guidance of the managing partner of ACNABIN, our team was tasked with evaluating the clients' accounting information systems (AIS), finding and correcting any non-compliance issues, provide suggestions for any improvement.

Among many of my job responsibilities, one of the major ones was to doing bill verification or voucher review. I the voucher review process, I had to walk-through the flow of documents and information uploaded on the ERP, such as requisition, purchase order, payment vouchers, cash vouchers, money receipts, vendor invoice, bill and all other supporting documents to look for any kind of mismanagement, violation, error or compliance issues. Based on my findings, me and my team discussed and prepared review reports to present to the associated personnel of the client. This helped improve the overall quality of information produced by their information system.

Occasionally, I participated in auditing the information system by analysis different segments of the ERP, such as employee data, payroll data, vendor lists and their payable balances etc. The information provided by ERP were verified against physical document verification as well as physical verification of the materials to understand the level of accuracy and reliability of the information provided by the system.

Moreover, one of my responsibilities was also to participate in field visits at different construction projects of the client. Each field visit had specific purpose, such as physical verification of the inventory and machineries based on ERP data, or reviewing and verifying the quality of materials received. Also, we analyzed if the quantity of inventory procured were actually required at the project or were actually being used properly, if data of different products and materials used and procured were being recorded properly at the site by employees working from there. One common goal for each field visit was to look for any kind of misuse of resources, compliance issues, health and safety related compliances issues etc.

My overall job responsibilities helped me get an overall understanding of the audit procedures and understand how they are planned, revised, executed and reported.

1.3 Internship Outcomes

1.3.1 Contribution to the Organization

As in internal audit intern at ACNABIN Chartered Accountants, my contributions mainly involve executing the internal audit procedures that helped bring out critical audit findings related to non-compliance, violation or fraud. Each observation, when reported and discussed with the client, they help them develop procedures and take necessary precautions to prevent further such violations. Other works of mine with the group, which has helped me contribute is process development. When the audit team realizes regular non-compliances or inefficiencies, this indicates that it is not a non-compliance issue, rather it is due to inexistence of proper procedures. In such cases, through repeated meetings and discussion with the client personnel, our team develops and finalizes procedures that help them improve the overall process and reduce discrepancies.

Furthermore, when I joined the client for the first time, I faced difficulties understanding the overall ERP system and navigating through it seemed complicated. Therefore, once I understood most parts of the ERP, I took the initiative to develop a detailed instruction manual that would help a new user to easily understand and navigate through the ERP. This will hopefully reduce the time it takes someone to understand the overall ERP and start contributing faster to the work of the team.

I also teamed up with the senior assistant manager of the audit team and assisted him in developing a few standard operating procedures (SOP), such as a standard purchase monitoring process, a standard sample distribution, collection and matching process etc. Also, I prepared and presented the meeting minutes to the team for their learning.

I hope that my contributions helped ACNABIN to deliver high-quality internal audit service to the client and it also helped the client make development and improvements in it’s processes.

1.3.2 Benefits of the internship program

This internship program helped me gain valuable sights and practical experiences of different topics. This was a complement to my academic knowledge as during my previous programs, the learning was mostly limited to theoretical understandings. Being able to be a part of different teams and different responsibilities gave me a wide range of practical knowledge that connect with each other to help me understand the overall information system in an organization. Moreover, the analysis of documents and physical verification helped me develop analytical skills and a questioning mind.

Moreover, preparing an ERP manual developed and improved my technical skills, and my involvement in team discussions allowed me to improve my problem-solving abilities, communication skills. Also, helping in meetings and preparing meeting minutes taught me the importance of documentation and communication within an organization.

Alongside with internal audit, I had the opportunity to work with the accounts team as well, because ACNABIN Chartered Accountants also provides accounting services to the client. I was a part of the team that conducted the vendor payable balance confirmation work for the financial statement preparation part, which gave me some understanding of accounting and reporting financial information. Also, meetings with the procurement teams regarding our observations found during the field visits helped me understand the procurement process and how they plan the material requirement based on operation's needs. Being able to work in the internal audit team, rather than just working with numbers and accounting data, this internship helped me gain understanding of this type of industry as well. The skills developed and insights received through this program is believed to serve me in my career in the future.

1.3.3 Challenges faced during the program

During the internship program, I faced several different difficulties and problems that I had to solve and overcome. First of all, it faced difficulties getting familiar with the ERP system of the client as I did not have any practical experience of working with an actual ERP. It had multiple different segments, each of them having several different functions. Navigating through all of them, learning their uses and how they connect with each other was overwhelming at first. Moreover, I also had to get familiar with the ERP of ACNABIN as well, which posed another challenge for me. However, with the help and consultation of my teammates and seniors, I was able to get familiar with it and overcome this challenge.

Another difficulty that I faced was leaving the academic environment and getting adjusted to the corporate environment. Previously, as an academic student, my knowledge was largely academic and theoretical. Adapting to the new environment and learning how to apply these knowledge practically posed a certain level of complication. By observing my peers, eventually I understood how to connect the academic knowledge with the practical environment and which theories apply in what situations. Eventually, this helped me get adjusted with the situation and I am still in the process of mastering my ability of learning and applying them in practical situations.

Moreover, another challenge was to balance my work, study and personal life. Auditing works were very demanding of time and there is no fixed schedule; depending on work pressure, our time frequently worked overtime, including work during the holidays. Also, chartered accountancy is a professional field where we need to study and apply the studied knowledge in work later on. This leaves very little time for personal life, therefore making a balance was much difficult.

Lastly, getting a hold of the internal audit processes, how to they are planned, connected and executed seemed complicated at first. However, with the help of my peers, I was able to overcome this challenge as well.

1.3.4 Recommendations

Based on the experiences that I have received and challenges that I have faced during the program, there are a few recommendations that I can share. Firstly, it would be helpful for any one if they could access any written detailed standard guideline regarding the audit procedures and the ERP systems. For instance, providing which steps to follow during the voucher review process, how to conduct it, which areas to prioritize and analyze etc. will help any new person or experienced to get better understanding of the process and improve their quality of work. Also, detailed instruction about the ERP will also be helpful to learn about it quickly and start contributing to the work as early as possible. Moreover, in the selection process of interns in ACNABIN, they should prioritize those who have a long-term career goal of becoming a chartered accountant and want to be a part of the firm as articled student. This would increase their motivation and dedication for learning during the program and reduce their turnover rate.

Also, ACNABIN does not have any preliminary training session for the interns at the beginning of the program to help them get familiar of with the work and structure of the overall firm. Lastly, more involved mentorship from the senior team members, their supervision, guidance and feedback will help them stay on track, be motivated and gradually make professional development and improve their skill and quality of work.

Chapter 2: Organization Part- Overview, Operations and a Strategic Audit

2.1 Introduction

2.1.1 Objective and Scope

The objective of this chapter analyzes and present different functional areas of ACNABIN, such as their organizational structure, management systems, operations, marketing, humane resource management, student and employee development etc. It will provide to the reader an overview of the firm, their services and major operational areas and help understand how they achieve their objectives. Moreover, it provides an overview of their marketing strategy, client target and acquisition, their competitive analysis in the industry. It also tires to provide some understanding of the role of their information and communication system. In other words, this chapter is a broad overview of ACNABIN and their overall functions and related areas.

2.1.2 Methodology

ACNABIN is a partnership firm and Bangladesh, partnership firms have minimal information and compliance requirements. Also, as CA firms deal with client information which is extremely confidential, much of the information and confined at the partner or management level. As a result, the information that are available or open to general people are very limited. Therefore, for this chapter, I primarily utilized information form firsthand sources. Majority of the insights provided in this report are based on information collected from discussion with the senior team members, senior students and supervisors who share their knowledge and experiences of different areas of the organization, its functions and their practices.

For additional information, I analyzed and reviewed different other secondary sources, such as articles, reports and papers related to ACNABIN and CA firms in Bangladesh on different scholarly platforms to gain understanding of ACNABIN, its industry position and external environment. Information published by ACNABIN in their official reports on their website also helped me gain necessary understanding.

2.1.3 Study significance

This study or report can be significant to the students, especially future interns as it is designed and written to be able to provide them with an understanding of the organization, its structure, management system, culture, operations etc. This understanding may also help them realize the difference between the environment of a traditional corporate workplace and a typical CA firm in Bangladesh. By exploring the major functional areas, such as their management, human resources, marketing, and operations, this study offers a wide view of the firm's culture and work process. Having an understanding before hand may help any student, future intern, trainee or articled student navigate through the internal environment of ACNABIN or any traditional CA firm in a better way than they would have if they didn't have any prior understanding. Also, developing realistic expectations and being prepared with the required skills and knowledge will help them get adapted with the professional environment of the firm is a much easier and more efficient manner.

2.1.4 Study limitations

The primary limitation of this study, as mention before, is the lack of officially published information about the firm. As ACNABIN is not a company, rather a partnership firm and due to the excess confidentiality, it maintains for being a CA firm, this study could not be conducted with a wide range of official information. Even though it provides a wide range of services, much of them are tailors for the need of the clients, the details of which are kept confidential due to its sensitivity. As a result, student and staff who do not belong to the managerial or admin level have very little access to these information.

Moreover, as an intern, I was part of an internal audit team of a particular client and my team worked from the location of the client, which further reduced my connection with the client and limited my exposure to the other service areas, such as external audit, corporate advisory and consultancy, VAT and tax related services, valuation services etc. Even though being a part of internal audit gave me more access to the information systems and information of the client to work with, it also confined my vision in regards to the other areas of the firm. Despite the limitations, this study tries to provide valuable insights into internal auditing and the organizational structure and provide an overview of the other areas as much as possible.

2.2 Overview of the Organization

2.2.1 Introduction

ACNABIN Chartered Accountants was established back in 1985 and from then till now, it is one of the best and leading CA firms, led by the most reputable partners in the CA industry. They have been operating of the last 40 years and with the expertise of the large number of partners, it offers a wide range of services, such as internal audit, external audit, tax advisory, tax planning, helping with tax related disputes with NBR, corporate legal disputes, business process outsourcing, corporate finance advisor and many other services tailored to the need of the client. Currently ACNABIN is an independent member of Baker Tilly International, another reputable and leading global accounting firm which has many members across the world. Currently with 8 highly qualified managing partners, they have the highest number of partners, qualified staff and students in Bangladesh. As a result, they have a large client base, including both private and public companies, banking companies, government institutions, international and local authorities, NGOs, educational institutions etc. The solutions that are provided by the experts of ACNABIN add value to the client and help them improve their business and achieve their business goals. Over the last 40 years, by providing high quality professional services ACNABIN has built a formidable reputation in the industry and strong trusted relationship with the clients and continues to be one of the best firms in Bangladesh.

2.2.2 History and Background

ACNABIN was established as a partnership firm in 1985 by 7 qualified partners, namely ABM Aziz-Uddin, Anwar Uddin Chowdhury, ASM Nayeem, HM Abul Kalam Azad, Mohammed Akhtaruzzaman, ATMA Bari, Iftekhar Hossain, and Mohammad Nurun Nabi. The name of the firm, “ACNABIN” is formed with the first letter of the each of the partner’s name -

A = ABM Azizuddin
C = Anwaruddin Chowdhury
N = ASM Nayeem
A = HM Abul Kalam Azad
B = ATMA Bari
I = Iftekhar Hossain
N = Mohammad Nurun Nabi

Immediately after its formation, ACNABIN served without having any membership of any international firm. Then from 1992 to 2002, it remained an authorized member and representative of Arthur Andersen LLP in Bangladesh, the global industry leader at that time. After 2002, Arthur Andersen got dissolved and ACNABIN formed association with ASNAF-ASEAN, an accountancy firm based in Singapore. And finally in 2004, it become an independent network member of Baker Tilly International and continues to be one till date. Baker Tilly International is also one of the industry leaders, which has over 125 members all over the world. Eventually, ACNABIN become one of the most trusted and reliable firm in Bangladesh, gaining recognition, membership and signing Memorandum of Understanding with different authorities in Bangladesh. Banking companies are one of the most sensitive companies to audit and auditing banks requires additional approval. ACNABIN is officially recognized by Bangladesh Bank for conducting bank audits in Bangladesh. This firm also hold membership of several different reputable professional bodies, such as Metropolitan Chamber of Commerce and Industries, the American Chamber of Commerce in Bangladesh, and the Dhaka Chamber of Commerce and Industries. Today, of the eight managing partners, three of them are from the founding partners, which helps retain the original vision and legacy of the firm.

2.2.3 Services

ACNABIN offers a large array of professional services, many of them are standard and statutory and many of them are finely tailored to the needs of the client that adds value to their business.

Audit & Assurance: Being an audit firm, the primary responsibility and major service offered by ACNABIN is assurance services. Among the wide range of assurance services, they most commonly offer internal audit, external audit, information system audit, corporate-governance code compliance audit. They make sure that the financial statements published by the companies reflect true and fair view and are in accordance with the relevant standards by ICAB and other international accounting and professional regulatory bodies.

Tax & Legal services: The firm offers several different services relate to tax and law, such as tax advisory, tax planning, helping clients with compliance with tax related regulations, filing tax return, helping with any kind of tax related disputes etc. They also provide services that help client properly comply to different laws and regulation that govern that activities of a corporate.

Consultancy: ACNABIN also provides consultancy services regarding different business decisions, such as business planning, corporate finance, capital structure, capital and equity management, fixed asset management, asset valuation etc. They also provide consultancy and legal advisory in different types of large business decisions, such as mergers and acquisitions, sustainability, competition etc.

Others: ACNABIN also directly provides or helps clients outsource different types of services, such as payroll services, accounting services, balance confirmation, financial reporting etc.

2.2.4 Mission, vision and values

Mission: The mission of ACNABIN is to provide the highest quality professional service in the country while maintaining all the necessary safeguards to the threats if independence and the threats to other fundamental qualities to provide such services objectively. ACNABIN strives to maintain the trust they have among the client base as a reputable audit firm and build up their reputation as the best of the industry.

Vision: The vision of ACNABIN is to go beyond just the mere compliance of regulation and standards related to financial information, rather their vision entails the future state of the overall profession. By delivering quality services, spreading awareness among the client base, providing different services that help develop processes of the client and train the students with utmost professional knowledge, they envision a must better, higher quality and transparent financial information environment.

Values: The values of ACNABIN align with the values of this profession, primarily integrity and professionalism. They try to provide the best quality financial and professional services while maintaining their ethical values, working with integrity and objectivity. As a professional service firm that broadly works for the public interest, they maintain confidentiality of the client information, but at the same time they work to present information to stakeholders that is true and fair.

2.3 Management Practices

2.3.1 Leadership style

The leadership style of ACNABIN is a combination of semi-autocratic and participative style. This combination is crucial for achieving their goal of highest quality output while also maintaining a collaborative environment at the senior level. The firm is primarily directed by the managing partners, who are the major decision makers. At the top level, key decisions are always made by the partners, such as choosing a new partner, changing policies of the firm, adopting new approaches to work. Partners enjoy a high degree of independence as to how deal with their client and how they manage the employees and student working under their supervision. In such cases, the partners take a democratic or participatory approach and they make such decisions through discussion.

On the other hand, specific operational decisions, especially those related to audit engagements, the firm maintains a more defined, hierarchical and centralized structure. This semi-autocratic style of leadership and management is necessary in this case to maintain the quality of work. Audit engagement works are highly dependent on the level of professional knowledge and must go through multiple layers of review by seniors, such as senior student, assistant manager, senior assistant manager, assistant director, director and engagement partner etc. Therefore, any flexibility or creative approach from the lower level allowing direct impact on the output is prevented from compromising the quality of work.

Just as such semi-autocratic style is necessary during audit engagements and other work procedures such as tax related services, in some cases, participatory style is also allowed at the junior level. In internal audit services where the team tries to find out any discrepancies and signs of mismanagement, all members are given the flexibility to apply different methods and run analysis. Also, when the firm is providing any such services where they are responsible to develop any procedure for the client, then any idea or advice for all levels are appreciated.

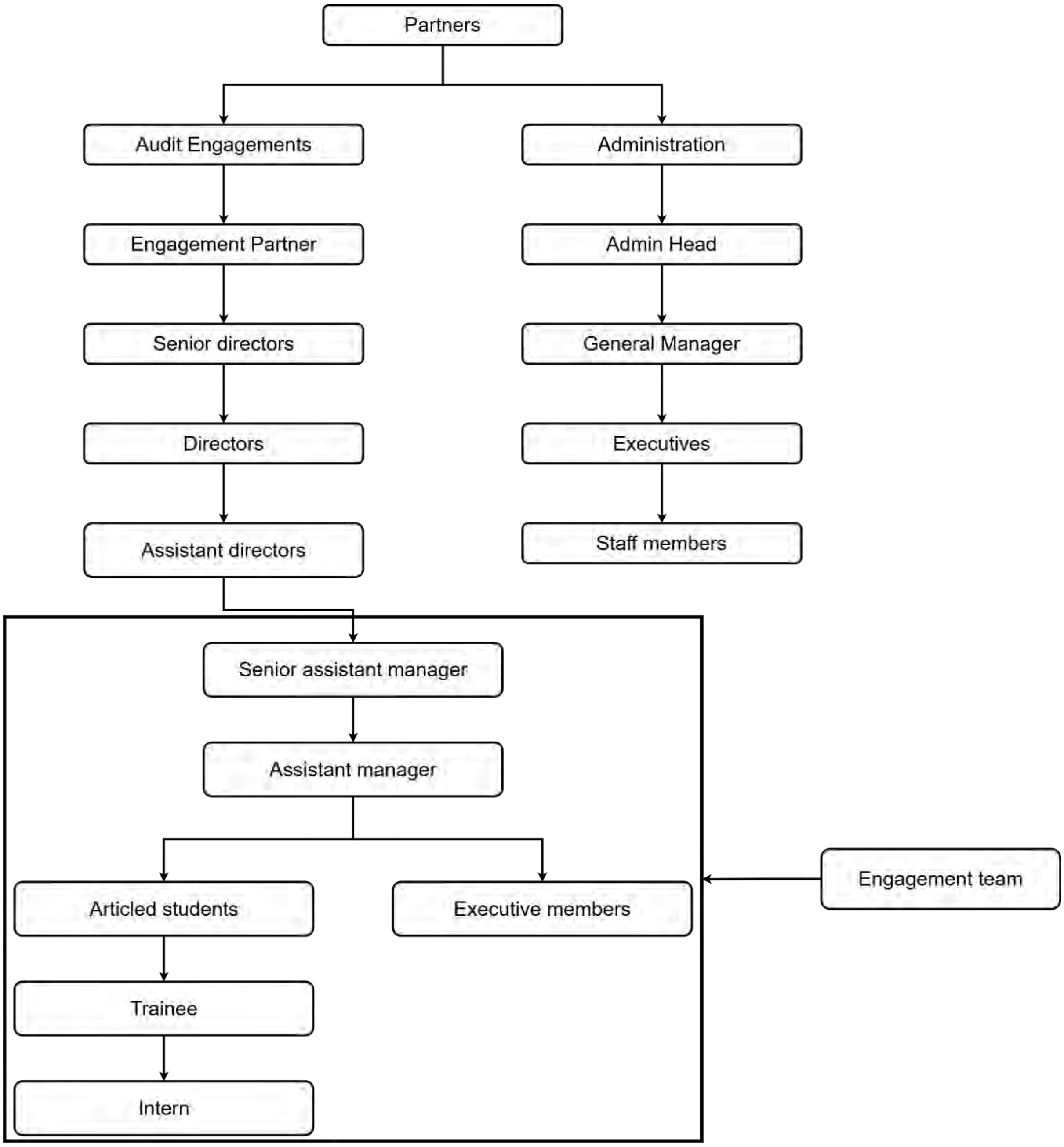

Figure 1: Organogram

2.3.2 Human resource management

The human resource management of ACNABIN focuses on developing its student and employees and retaining the most talented minds for its pool of talented articled students. Once the students complete their articleship of 3 to 4 years, depending on the previous qualifications, they have the flexibility to either continue at the firm as an employee or look for other employment opportunities outside. However, the firm tries to retain the talented and high-performing students as employees by offering competitive salary and most importantly, future growth opportunity. Many of the employees prefer to continue working with the first rather than working at a corporation at higher salaries, because the firm as a collection of highly knowledgeable professionals and the scope of learning and professional development provided by the firm is much greater.

2.3.3 Recruitment and selection

ACNABIN has a well-defined recruitment and selection process that help the firm meet its workforce needs and serve its clients. The primary source or recruitment of the firm are the articled students. They follow a rigorous selection process for selecting students that involves CV screening, written examination, verbal interview and final selection. The students that are selected through the process undergo a six to eight months of training period as an audit trainee to get prepared for their articleship period. Recruiting and selecting students at this stage rigorously allows them to create a readily available pool of talented students, who in the future after their article period turn into valuable employees. Besides, for managerial positions in the administration of the firm, they recruit from both accountancy and non-accountancy background through initial screening and interview process.

2.3.3 Compensation policy

ACNABIN follows a systematic and progressive payment policy for student that is in accordance with the policy of ICAB and it reflects their brand value and reputation. For those in their trainee period, ACNABIN currently pays 6000 taka per month and for articled students, their minimum payment is 7000 taka per month. As per ICAB policy, each year, the allowance increases 1000 taka. However, the actual allowance a student receives depends on their CGPA, university and previous academic qualification. ACNABIN not only pays a handsome amount to their students, they are the highest paying CA firm in Bangladesh. Moreover, for administrative employees, they have a fixed salary, which is determined based on their designation and qualification. The directors have a fixed salary as well as flexible income based on commission from client's work. On the other hand, the partners don't take any fixed remuneration, rather they take share of the firm's profit, which they share based on the contribution by their clients.

2.3.4 Learning and development

ACNABIN being an audit firm, compared to being a traditional corporation, offers much broader scope of learning and development for everyone. The entire environment, structure of the organization is designed to focus on learning and development of the students. First of all, all the students work alongside the professional for 3 to 4 years where they learn how to apply professional knowledge, conduct audit procedures and other professional works. This period is similar to an apprenticeship that is focused solely for the purpose of learning, gaining skills and making professional developments. Other than students, many individuals join the firm as employees with the aim of working alongside qualified chartered accountants with the aim of professional development. Even though ACNABIN often offers training sessions for their students and staff on different key areas, such as bank audit, money laundering, IFRS, IAS that give them understanding of the work and help them perform better, the learning and development is primarily dependent on practical experience. Throughout the articleship period the students are given the opportunity to work with several different clients and several different departments in the firm, allowing them to gain experience in multiple areas of this profession.

2.3.5 Performance appraisal

Performance appraisal is a major part of the management system of ACNABIN. They continuously monitor the performance of each and every individual, starting from directors to interns on a regular basis. The individuals work under the supervision of their senior and their works are reviewed almost on a daily basis. Performance measurement is done differently for different individuals. For example, for the interns and junior students, how efficiently and effectively they were able to complete the assigned task while adhering to the standards. For managers, they focus on how efficiently they were able to manage their teams to complete the assignment. On the other hand, the directors deal with multiple clients and they are assessed by the number of clients they are able to deal with, the quality of work, satisfaction of client and the contribution they make to the firm.

2.4 Marketing Practices

2.4.1 Marketing strategy

For their marketing and acquiring clients, ACNABIN is primarily dependent on their reputation as a firm in the industry, their quality of work, the reputation of the partners etc. It does not have any dedicated team for their marketing and promotional activities and similar to other CA firms, they have limited presence on social media. The partners of ACNABIN are one of the best and most reputable members of this professional body and they clients are mostly acquired directly by the partners through their own networking capabilities. Throughout the years since inception, they have served many different well-known clients, such as Grameenphone, Walton, Berger, NCC Bank, BDBL, ROBI and many other clients and were able to execute the works with satisfaction. Moreover, their affiliation with Baker Tilly International makes them a network member, which also highlights them in the industry and attract more clients. Besides, the partners often represent ACNABIN at different programs and seminars arranged by different professional bodies.

2.4.2 Target customers, targeting and positioning

As ACNABIN provides a wide array of services and the large number of partners are experts in several different fields, their customer base is also quite divers, starting from large corporations, banks, insurance firms, NGOs, manufacturing company, governments, NBFIs, medium enterprises, private companies etc. The majority of the clients the companies that have a statutory requirement for getting an audit report from a firm and needs to submit it to RJSC. Another large number of clients are the companies and entities that are in need of tax related services, specially those who are in a tax related dispute with the tax authority and are in need of professional advice. Moreover, there are several private companies that are looking forward to go public and are in need of consultancy regarding their capital structure and corporate finance advisory. Many of the companies that are struggling to become profitable, retain their resources or are facing misappropriations etc. form a large base of the clients, because ACNABIN uses its expertise to help them identify issues in the business and provide them advice on how to deal with such situation through internal audit or consultancy. In simple terms, their client base are mostly business entities that are facing some sort of need or problem but do not have such capable to doing it in house due to their lack of expertise.

2.4.3 Marketing channels

ACNABIN does not follow any traditional marketing campaign or advertisement. Besides, due to the professional codes of conduct by ICAB and other professional regulatory bodies, the scope of promotion of work are much limited for audit firms. Therefore, they primary use direct marketing channel, approach or engage with clients directly or through referrals. Satisfied clients often refer ACNABIN or specific partners for their services. Not having any robust marketing activity and relying on direct methods are common for traditional firms in Bangladesh.

2.4.4 Product and competition

As an audit firm, their products are basically the range of services they Provide. Instead of developing new product, they try to continuously improve the quality of their service by being up to date with the regulatory standards. Moreover, when they acquire a new client, they tailor their services based on the specific needs of the client. Or in case of complicated situations, they use their expertise and discuss with other to find solution that work as a reference for future scenarios.

2.5 Financial performance and accounting practices

2.5.1 Financial performance

Since ACNABIN is a partnership firm, it does not have any regulatory requirements regarding its publication of financial and other forms of information and it is at the liberty of the partners if they want to disclose any information at all. As a result, financial performance data, such as financial report, revenue or profit, valuation etc. are limited to partners, a few directors and the admin. Even though ACNABIN provides financial reporting services and helps them publish audited financial reports, they prefer to keep their records confidential and not available to the public to analyze, which is the industry practice for CA firms. However, the firms going client base, their successful execution of audit engagements contributes to their financial performance and indicates good financial health.

2.5.2 Accounting practices

ACNABIN follows established standard accounting practices that are set by international accounting bodies and the recognized supervisory body in Bangladesh, which is Institute of Chartered Accountants of Bangladesh (ICAB). As firm led by all the top accounting professionals, their financial and accounting records are maintained by International Financial Reporting Standards (IFRS) related to joint arrangements or partnership accounting. Similar to the companies in Bangladesh, they maintain their accounting records as per the fiscal year from July 1 to June 30. However, due to not having any strict financial reporting liability, they have to liberty to follow accounting policies and practices that best suits their purpose. But it still has some common principles and assumptions, such as going concern, historical cost, economic entity assumption etc.

2.6 Operations Management and Information System Practices

2.6.1 Operations management

Due to the large number of client and wide array of complicated professional services, it is very important to have effective and efficient operations management to be able to deliver such services smoothly and maintain client satisfaction. Their operations management tactics are organized in a way to handle all types of professional services that focus on maximizing their productivity and maintain high level of output. They have multiple review teams under each partner to track the progress of each engagement, assess the quality of work to maintain high standards. Also, the partners and directors may conduct surprise review of the work done so far in an engagement to assess the work and deal with any issues if apparent.

Moreover, ACNABIN uses defined schedules, work-plans, allocates resources to manage their work, specially audit engagement. External audit engagements are similar to a project where they work in teams, have multiple modules to complete within a specified time and hand over a final output in the end. By arranging the expertise based on need and complexity of the engagements and allocating time and resource, they manage their operations. Such management helps them provide high quality output on time and maintain their reputation among the client base.

2.6.2 Client Relationship Management

Client Relationship Management (CRM) is the most important part of the operations of ACNABIN. As they don't provide their services to general public, rather business clients ranging from large corporations to government authorities, they don't have a great number of customers. Therefore, managing good relationship with the client is important for the firm. ACNABIN tries to maintain regular communication with the client and its management, address their concerns with due diligence and offer solutions for different problems that they are facing, sharing profession knowledge and advices that helps them overcome their problems and fulfil business needs. Helping the client save resources, becoming profitable etc. increases client loyalty, satisfaction and help maintain better client relationship management and improve it further. Also, ACNABIN is strict about maintaining and protecting their professional values and ethics and they avoid any client relationship management approach seems to compromise these value.

2.6.3 Information system

ACNABIN relies heavily on their information system for their overall activities and operations and manage related data. They have their own ERP (Enterprise Resource Planning) system to manage and store data related to their client, staff, students and other stakeholders. The ERP systems is the center point of almost all of the activities run by the firm, such as tracking employee record, student record, daily activities, processing their attendance through timesheet entries. Each student and employee are given their unique ID with which they can input their relevant data and perform their activities, such as review, approval and authorization of requisitions, maintaining and processing payroll etc.

As a part of all other activities of ACNABIN, their resource allocations and distributions are also done through the ERP. For instance, if any student or employee requires any stationary or supplies, or are in need of any device or repair of their device, then they need to place their requisition through the ERP to the admin. Moreover, they maintain a secure database to securely store any proprietary data, sensitive client data, access to which are limited only to the partners. As per the requirements of Institute of Chartered Accountants of Bangladesh (ICAB), they need to confidentially store client data for a minimum period of time, depending on the data, and their information system database helps them fulfil this.

2.7 Industry and Competitive Analysis

2.7.1 Porter's 5 Forces Analysis of ACNABIN

1 Threat of New Entrants: The threat of new entry, increasing competition in the future in the Bangladeshi market can be said as moderate to high. Even though it is not easy to start a new CA firm due to the high entry requirements and required qualifications of this profession, new competitors are still emerging faster due to the growing demand. Many of the qualified members who were employees of existing firms often leave to start their own firm and this may give rise to competition in the future.

2 Threat of Substitutes: The threat of substitutes to the services provided by ACNABIN is low, because there are no alternatives to such services. There is no other professional degree or professional body, the members of which have to statutory power of signing audit reports. As a result, such services can only be provided by members of ICAB and CA firms.

3 Bargaining Power of Suppliers: The main suppliers to ACNABIN are its workforce, primarily articled students, junior accountants, and experienced professionals. Even though there is a large number of students competing to become chartered accountants, the firms try to retain the most talented students for being able to deliver the highest quality services in the future. Students with good educational often demand for higher allowance. Besides, there has always been a shortage of qualified professionals, and due to their low supply, they often demand a very high wage from the firm. However, due to the learning opportunities provided by ACNABIN, many are willing to compromise on the remuneration temporarily. Therefore, the bargaining power of suppliers are moderate.

4 Bargaining Power of Buyers: The bargaining power of buyers is high in the CA industry. Clients have many options when selecting an audit and accounting firm including Rahman Rahman Huq, Hoda Vasi Chowdhury & Co., and others. The large number of firms in the market means that clients can demand better service quality or negotiate fees.

5 Rivalry Among Competitors: Competition in the CA industry is fierce. There are over 200 CA firms in Bangladesh, with more than 50 firms classified as 'A' category, as per ICAB, representing the best in terms of service quality. ACNABIN, as an A-category firm, faces intense competition not only from other large firms but also from newly established firms offering. Rivalry increases as firms compete for large clients.

Table 1: Competitive Analysis

Competitive Analysis Table		
Force	**Rating**	**Rationale**
Threat of New Entrants	4/5	New firms are constantly emerging, and while there are barriers, experienced chartered accountants may still open competing firms.
Threat of Substitutes	1/5	There are no alternatives to the services provided by ACNABIN.
Bargaining Power of Suppliers	3/5	While the firm can recruit articled students easily, it faces challenges in hiring experienced professionals who demand high wages.
Bargaining Power of Buyers	4/5	With many firms to choose from, clients can easily switch firms based on service quality and fees, giving them significant bargaining power.
Rivalry Among Competitors	5/5	The competition is intense, with over 200 firms in the market, and ACNABIN faces pressure from both large established firms and new entrants.

2.7.2 SWOT Analysis

Strengths

- ACNABIN is a highly reputable CA firm in Bangladesh, with strong brand recognition in the accounting sector
- ACNABIN has a large number of qualified personnel working as directors and managers at the firm. Also, it has the highest number of partners who are one of the best in the industry.
- Having 8 partners, they are able to recruit a large number of articled students under them and any of them are selected through rigorous screening process. This improves their quality of work.
- It has an affiliation with Baker Tilly International, which highlights the value of ACNABIN in the international market.
- ACNABIN also has a large client base and in terms of audit, it is one of the best performing audit firms.

Weaknesses

- The work culture of ACNABIN is very rigid and demanding of time and focus. It may cause poor work-life balance for the students and employees, which may hamper their productivity and performance.
- Even though they have a large number of clients, majority of their revenue comes from a few big clients, which makes them dependent.
- Compared to its competitors, ACNABIN lacks technological advancements. For instance, many of its competitors already use advance audit software and customized AI based tools for auditing, but ACNABIN has no such facility yet.

Opportunities

- With the expansion of the economy of Bangladesh and new companies starting and growing, the need of professional services is increasing.
- Although currently focused on local clients, there's potential for ACNABIN to grow by targeting international clients or collaborating with foreign businesses entering the Bangladeshi market.

Threats

- ACNABIN is not part of the Big Four, which remains a challenge as many multinational clients prefer the Big Four firms for their established international networks.
- With new CA firms entering the market, the level of competition has increased, posing potential challenges in client retention and pricing.
- As technology progresses, clients may increasingly look for firms that provide advanced services and technically competent students and employees. If ACNABIN doesn't invest in technology like AI-driven auditing tools, it could lose clients to firms that offer faster and more precise service.

2.8 Summary and conclusion

This chapter discussed ACNABIN's background, vision, mission, values and services etc. followed by the overview of their management, marketing, operations competitive environment. In summary, for their leadership style, they follow a blend of semi-autocratic and participative leadership to welcome new ideas and maintain high-quality output at the same time. The firms also follow structured and well-defined HR practices, well planned recruitment process, skill-based training, practical learning and professional growth. For their marketing, they primarily rely on their market reputation, referrals and network and reputation of the partners. Moreover, ACNABIN uses ERP systems to improve the efficiency of their operations, ensure smooth and secure data management, maintain payroll, employee and client database etc. On the other hand, analysis of the external environment of ACNABIN has highlighted some insights about their competitive landscape, such as high client bargaining power, strong competition in the market, low threat of substitute etc., and the overall environment appears to be competitive.

2.9 Recommendations

1. **Enhance Learning Environment**: ACNABIN can develop different mentorship programs to improve the relationship and increase interaction between the students and partners, arrange seminars and work-shops etc.
2. **Upgrade Technology**: ACNABIN should invest in higher advanced technology to improve their output and productivity.
3. **Strengthen Digital Presence**: Increase activity on social media to enhance visibility, attract talent, and engage potential clients and students interested in CA careers.
4. **Improve Employee Benefits**: Update policies to ease workloads for articled students for work-study-life balance and maintain their positive motivation and prevent burnout.
5. **Offer Training Programs**: Conduct regular training sessions focused on audit skills and efficiency to improve service quality and support students in their CA journey.

Chapter 3 Exploring the Impact of Audit Committee Effectiveness on Audit Report Lag

3.1 Introduction

3.1.1 Background

Internal auditing is defined by the Institute of Internal Auditing as an independent, objective assurance and consulting activity aimed at enhancing organizational operations. It provides value by evaluating and improving the effectiveness of risk management, control, and governance processes (Nagy & Cenker, 2002). Internal auditors work as both "watchdogs" for regulatory compliance and as partners who support organizational performance. They risk perform assessments, internal control tests, and provide management with information for decision-making (Roussy, 2013). Additionally, other than traditional auditing of different parts of the business, they also play an advisory role that can influence the strategic decision making of the organization (Arena & Sarens, 2015).

Internal auditing is a key mechanism of the corporate governance that provides oversight of the internal controls as well as the risk management in order to ensure that the governance within an organization is effective. It also improves the communication different important elements of governance, such as the audit committee, management and the external auditors (Tušek & Barišić, 2016). Internal audit is important for maintaining strong governance because of its role in risk minimization and fraud detection. Besides, internal audit makes sure that the governance processes are strong and reliable (Johari & Rashid, 2018). Research shows that internal auditing improves transparency and accountability, which ultimately impacts their performance and stability and contributes positively to governance (Eke, 2020).

The audit committee is a subcommittee of a company's board of directors that mainly focuses on monitoring the overall financial reporting process, internal control systems and the audit processes by the external auditors. By monitoring, they ensure that the financial statements are accurate and the organization complies with the legal and regulatory requirements (Abbott & Parker, 2000). The audit committee acts as a bridge between the board of the company and the internal audit, which strengthens the reliability the internal control (Rezaee & Lander, 1993). A major responsibility of the audit committee is to assess the independence, performance quality and examine if the internal audit functions are sufficient. This includes review of the audit plans, observations and making recommendations, while also monitoring if management is effectively dealing with the issues identified (Alzeban & Sawan, 2015).

One of the major areas of accounting and corporate governance is financial reporting. The primary purpose of financial reporting is to provide stakeholders, such as investors, creditors, regulators, and management with reliable and relevant information regarding a company's financial performance and position. This information allows the users to make informed decisions, allocate resources efficiently, and the assess of a company's economic viability (Gilaninia et al., 2013). By presenting high-quality financial information, companies help minimize information asymmetries between themselves and external parties, as well as between investors and management, which ultimately enhances investment efficiency. Ultimately it supports the stakeholders to evaluate the overall financial health and potential of a company (Chegini et al., 2013). Additionally, financial reports enable stakeholders to assess risks related to the organization and its financial stability, which provides a foundation for making decisions that impact both the success of the company and the overall economy (Zatravina & Nezametdinova, 2022).

A key element of financial reporting is the financial statements along with the annual report, which is the key highlight of the study. Financial statements are formal records of a company's financial activities, including the income statement, balance sheet, and cash flow statement. They provide essential information for stakeholders to evaluate financial health and performance; whereas annual reports are yearly publications by companies that include financial statements, management discussions, and governance disclosures etc. (Healy & Palepu, 2001). The audit committee oversees the preparation of financial statements and works in cooperation with the external auditors to address any issues and supports timely publication of financial reports (Klein, 2002).

Another key element of financial reporting is an audit report. An audit report is a formal document issued by an auditor that communicates the results of an audit of a company's financial statements. It is the primary form of communication between the auditor and the users of the financial statements. Audit reports are important for transparency and they offer an independent and objective evaluation of a company's financial statements. They make sure that the financial reports comply with the accounting standards and provide the stakeholders with financial information that is reliable and relevant. Auditing and publication of audit report is crucial for developing confidence of the users of financial information in the company's financial health (Ahmed & Hossain, 2010). Besides, external audit reports are also legally required in many countries. In Bangladesh, the Financial Reporting Act (FRA) of 2015 provides the framework for preparing and auditing financial statements, while ensuring compliance to international standards (Swapan Kunar Bala, 2017).

Audit report lag (ARL) refers to the period between the end of a company's financial year and the date when its audit report is finalized and issued. ARL is a measure of the timeliness and efficiency of financial reporting, which directly impacts the decision-making of the stakeholders such as investors, regulators and others. A shorter ARL usually means more efficient audit and it is also related with higher relevance and reliability of the financial information (Durand, 2019).

Timeliness is one of the major qualities of financial information, because delays in the publication of audited financial statements can reduce the usefulness of financial statements (M. Hossain, 2014). Longer ARL often means complex audit and higher financial risks of the company (Abernathy et al., 2017). Also, these delays may disrupt or hamper the proper function of the capital markets by causing more information asymmetry, which inversely impacts the stock price valuation and investment decisions (Leventis et al., 2005). Companies that have longer ARL are often considered to have inefficient operations or higher financial risk. On the other hand, the ones with shorter ARL are considered to have strong internal controls and effective governance (Lajmi & Yab, 2021). Moreover, longer ARL may indicate possible governance or financial issues that decreases stakeholder trust (Habib & Huang, 2017).

Therefore, reducing ARL is critical for ensuring the relevance and usefulness of the financial information, because timely audit reports make sure that the users receive the most accurate and relevant information; and they build trust and confidence among them (Lajmi & Yab, 2021). In some cases, listed companies on stock exchanges, publishing audit reports within timelines may be legally mandated and non-compliance can lead to penalties (Leventis et al., 2005). In financial markets audited financial statements are often the primary source of information for the investors, therefore, a shorter ARL a is important to reduce uncertainty for the stakeholders (Oh & Jeon, 2022).

Keeping in mind the importance of reducing ARL, an effective audit committee plays a vital role in reducing it. Different key characteristics of the audit committee such as financial expertise, independence, and meetings contribute significantly to reduce ARL. For example, audit committees with members who have financial expertise and prior experience tend to produce more timely audit reports, as they are better capable of overseeing the audit process (Sultana et al., 2015). This better oversight reduces the time that is required to issue the audit report and support the informed decision of the stakeholders (Husaini et al., 2019).

Moreover, when due to the effectiveness of audit committees, ARL is reduced, it also lowers the audit risk. A shorter ARL makes financial reports more reliable by reducing the chances of alternation or manipulation. When the audit committee members are independent and conduct regular meetings among themselves, it ensures that the auditor can work more independently (Almuzaiqer, 2018). Ultimately, an effective audit committee can create an overall environment that reduces audit risks and makes the financial reporting process timely and reliable.

3.1.2 Problem Statement

Timely financial statements are important for investors due to its usefulness and value and delays in publishing audit reports can reduce such value and negatively impact investor confidence. ARL is a key measure of the timeliness of the financial information. A longer ARL causes delays in announcement of earnings are other important financial data that investors use for making decision and it reduces the effectiveness of financial reporting. And in reducing or minimizing ARL, audit committee plays a vital role. Different factors related to the audit committee, such as their financial expertise, their tenure and independence can help reduce ARL and ensure timely reporting.

3.1.3 Research Questions

1. Does audit committee tenure affect audit report lag?

2. Does audit committee financial expertise affect audit report lag?

3. Does audit committee independence affect audit report lag?

3.1.4 Objective

The primary objective of this study is to explore the impact of the effectiveness of the audit committee on ARL and its overall implications for the financial reporting process of the organization, focusing specifically on the listed pharmaceutical companies in Bangladesh. This study aims to identify and analyze key characteristics of an effective audit committee, such as their expertise, independence, the length of their tenure and other factors to understand how they play a role in making audit reports timely and reliable. This study tries to explore the relationships between different audit committee characteristics and ARL and provide insights on how they can reduce ARL and improve the financial reporting process. Overall, the aim of this study is to analyze how the effectiveness of the audit committee influence ARL within the context of listed pharmaceutical companies in Bangladesh.

1. To investigate the effect of audit committee independence on audit report lag.
2. To investigate the effect of audit committee on audit report lag.
3. To investigate the effect of audit committee tenure on audit report lag.

3.1.4 Significance of issue

This study contributes by addressing a gap in the literature on audit committee effectiveness and ARL. The previous researches on this literature has mainly examined the relationship between audit committee effectiveness and ARL in different international contexts and limited number of such studies were conducted in Bangladesh, such as Ahmed and Hossain (2010) and Habib et al. (2018), whose studies primarily focused on exploring factors that cause audit report lag. Sobhan et al. (2024) explored the relationship between audit committee characteristics and ARL, but the scope of the study was limited to manufacturing companies. On the other hand, this research specifically focuses on the pharmaceutical sector, one of the most important and largest sector in Bangladesh. Practically, this research is relevant to the auditors, audit committees and personnel responsible for corporate governance. By identifying key characteristics of the audit committee that impact ARL, this study offers insights for audit committees on how they might be able to improve their practices and ensure timely reports. Similarly, for regulators and policymakers, the findings of this study can provide them with insights that may help them shape and improve corporate governance guidelines.

3.1.5 Scope of the study

The scope of this study is limited to examining the relationship between effectiveness of audit committees and audit report lag (ARL) within the pharmaceutical industry of Bangladesh. This analysis is done based on financial reporting data of the last five years collected from their published annual reports. By focusing on audit committee characteristics, such as financial expertise, independence, and tenure, this study seeks to explore their influence on ARL. However, using secondary data from annual reports has some limitations, such as lack of qualitative insights that are not published in the annual reports. Moreover, focusing on a specific industry provides deeper insights but may make it harder to apply the findings to other sectors.

3.2 Literature Review

The timeliness of financial reporting is a topic that has been widely researched in both advanced and developing countries. Several studies have highlighted the important role of the audit committee in reducing ARL and ensuring timely financial reporting. And in those studies, different audit committee characteristics such as independence, financial expertise, size, tenure etc. were found to have relation with improved timeliness of financial reporting. For instance, audit committees that are independent are better at supervising the financial reporting process and reducing the delays, because compared to other members, they can operate without undue influence from management (Song & Windram, 2004). Similarly, their financial expertise allows them to complexity in the financial reporting more efficiently and result in faster reporting and completion of audit (Sultana et al., 2015). Moreover, larger audit committees bring more ideas and new perspectives, even though too large audit committee can cause coordination challenges (Almuzaiqer, 2018). Studies in different regions or countries have illustrated these observations. For example, Sultana et al. (2015) has revealed that in Australian firms, when the audit committee members are financially experienced, independent an are skilled can reduce ARL significantly. In the UAE, Almuzaiqer (2018) has noted that larger audit committees were more effective in minimizing delays. Similarly, research on Malaysian companies by Ismail et al. (2022) shows that audit committee independence, expertise, and size is important for reducing the reporting time. Also, in Indonesia, Husaini et al. (2019) emphasized that effective audit committees not only reduced ARL but also improved the audit quality, which leads to better and timelier report. Other than audit committee effectiveness, there are many other factors that influence ARL, such as organizational complexity and their internal controls. Organizations that have simpler operations have shorter ARLs, as the audit processes are less complex (Sultana et al., 2015). Also, companies with strong internal control systems are associated with faster financial reporting, as these qualities make the audit process smoother (Ismail et al., 2022). Moreover, the quality of the external audit also influences the timeliness of audit reports. Therefore, the combination effective audit committees and high-quality external audits and improve both the speed and accuracy of the reports (Husaini et al., 2019).Throughout the years, there have been many studies that showed various factors that determine the effectiveness of the audit committee and how they impact the audit report lag. These factors have been extensively studied in the past literatures and the factors that have been chosen for this study are – independence, expertise and tenure.

Audit Committee Independence

Audit committee independence refers to the structure of the audit committee where the committee members are free from the management influence and independence in the committee is achieved by appointing members that are independent directors. Independent directors do not have material connections with the company, which allows them to make decisions objectively (Bronson et al., 2009). The independence allows them to make judgement that is impartial and protect the integrity of the financial reporting (Song & Windram, 2004). Independence is important because it is able to enhance the financial reporting quality. Research shows that the independence of the committee members are linked with lower earnings management and better internal controls, and both of these are important for the credibility of financial information (Bradbury et al., 2004; Pomeroy & Thornton, 2007). Due to their impartiality, audit processes can become more rigorous and it ensure higher accountability. Moreover, independence plays an important role in improving the timeliness. Previous studies have shown audit committee independence has a negative relation with audit report lag (ARL), which suggests that independent committees are more capable of overseeing the audit process and ensuring timely disclosure of the financial reports (Sultana et al., 2015).

Audit Committee Expertise

Audit committee expertise refers to the members of the audit committee having professional knowledge in finance and accounting, which improves their ability to monitor financial reporting and auditing. Professionals with financial expertise are more capable of addressing complex accounting issues, evaluate the audit process and ensure reliability of the financial report (Bilal et al., 2018). Research has shown that audit committee that has financial experts can significantly improve the quality of financial reporting by identifying errors, misstatements and reduce the risk to mitigate them (Ghafran & O'Sullivan, 2017). In the context of Bangladesh, the Corporate Governance Code (2018) mandates that at least one of the audit committee members should have financial literacy, but it does not specifically mention professional financial qualification. However, studies highlight studies show that financial expertise has deeper impact on the effectiveness of the audit committee, particularly on strengthening internal controls and improving transparency (Ojeka et al., 2015). Audit committees with financial experts identify weaknesses in the process and ensure strong risk management and improve the credibility of financial statements (Dhaliwal et al., 2010). Moreover, financially knowledgeable committee members speed up the audit process, reducing audit report lag (ARL). Research has consistently shown a negative relationship between audit committee expertise and ARL, with studies by Sultana et al. (2015) and Afenya et al. (2022) highlighting significant role of expertise in making financial reporting timely. Overall, audit committee financial expertise is important for reducing audit report lag.

Tenure within the audit committee

Audit committee tenure refers to how long members serve in the audit committee. A longer tenure is often linked with better oversight, as experienced members have a deeper understanding of the company's operations and their financial systems. This experience contributes to more effective monitoring of financial reporting and reduces the likelihood of earnings manipulation and improves accuracy and integrity (Sun & Liu, 2014). Audit Committee members with a longer tenure are more familiar with the risks of the organization, audit process and it enables them to identify and address issues earlier and mitigate risks (Razani & Xia, 2017). Their experience related to the organization improves the effectiveness of internal controls and provides a foundation for strong governance (Kayleen & Harindahyani, 2019). Most importantly, the experience gained through longer tenures is linked to reductions in audit report lag. Experienced audit committee members improve the communication between management and auditors and make the audit process smoother and shortens its duration (Husaini et al., 2019). Overall, the knowledge of the organization gained through the longer tenure and getting familiar with the regulations, the audit committee members significantly improve the timeliness of financial reporting reduce ARL.

3.3.1 Conceptual Framework

The conceptual framework used in this study is based on the concept derived from previous studies that audit committee effectiveness impacts audit report lag (ARL). Based on previous literature, three key characteristics of the audit committee has been chosen, independence, expertise and tenure. These factors are used as independent variables for the analysis and tested how ARL depends on them. Prior studies confirm the validity of this framework and demonstrated that they have influence on audit committee effectiveness.

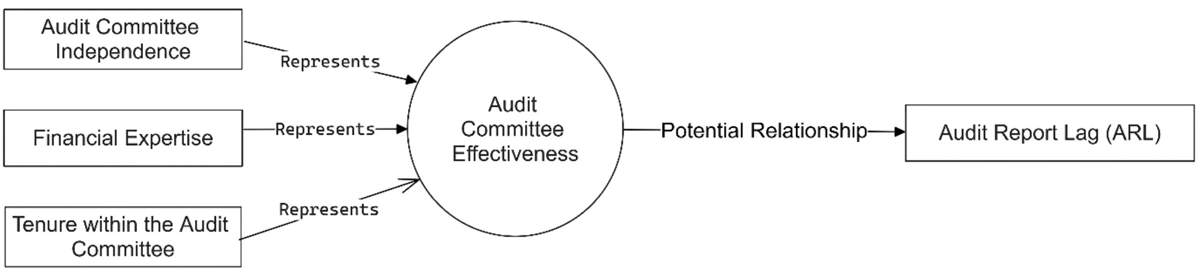

Figure 2: Conceptual framework

3.3 Methodology

This section presents the research design and approach used in this study. It provides an overview of how data was collected, measured and analyzed to answer the research questions. The study uses a quantitative research method, because it primarily uses statistical analysis to explore the relationship between audit committee effectiveness and audit report lag. Although audit committee effectiveness is not a quantitative or concrete concept, it is represented by different factors that can be measured, which allows this quantitative analysis. This study is a correlational study which aims to explore the relationship between audit committee effectiveness and audit report lag. Data are collected to measure both effectiveness and ARL and tested against each other to determine the existence and strength of the correlation.

3.3.2 Target Population and Sample

The target population for this study comprises all pharmaceutical companies listed on the stock exchange in Bangladesh. For the sampling technique, the study does not employ a specific sampling method but instead includes all listed pharmaceutical companies with available data. Since the study examines data from the most recent five years, companies that do not have five years of historical data due to recent IPOs or other reasons are excluded from the analysis. This approach ensures that the dataset is comprehensive while maintaining consistency in the time frame of analysis. Consequently, the final sample size consists of 18 companies. This sample size includes all eligible companies from the target population that meet the criteria for data availability.

Table 2: Sample Companies

Sl.	Sample Companies
1	ACI Limited
2	ACME Laboratories Limited
3	Active Fine Chemicals Limited
4	Advent Pharma Limited
5	Ambee Pharmaceuticals limited
6	Baecon Pharma limited
7	Beximco Pharmaceuticals limited
8	FAR chemical industries limited
9	IBN SINA Pharmaceutical industries limited
10	Indo-Bangla Pharmaceuticals Limited
11	JMI Syringes and Medical Devices Limited
12	Marico Bangladesh limited
13	Orion Pharmaceuticals Limited
14	Pharmaids Pharmaceuticals Limited
15	Renata Limited
16	Silco Pharmaceuticals Limited
17	Silva Pharmaceuticals limited
18	SQUARE Pharma limited

3.3.3 Data Collection

The data for this study were collected from the annual reports published by the selected pharmaceutical companies. The variables used in this study include three independent variables representing audit committee effectiveness and one dependent variable, audit report lag.

The independence of audit committee members is measured as the percentage of independent members. A member is considered independent if they hold a position such as an independent director; therefore, assigned a value of 1, and non-independent members assigned a value of 0. The total independent members are divided by the audit committee size to calculate the proportion in percentage. Financial expertise is measured in a similar manner. Members with professional designations such as FCA, FCS, or FCMA etc. are assigned a value of 1, while others are assigned a value of 0. The percentage of financial experts within the audit committee is calculated by dividing the total number of experts by the audit committee size. Tenure is assessed based on the number of years a member has served on the audit committee. For each member, the tenure is calculated as the difference between their appointment date to the audit committee and the date of the latest audit report. The average tenure for the committee is then determined to reflect its collective experience.

The audit report lag (ARL), expressed as the number of days between the balance sheet date and the date the auditor signs and confirms the financial report. This variable is calculated all the selected companies for the last five fiscal years from 2018–2019 to 2022–2023 and based on that, the average ARL of the past five years is calculated.

3.3.4 Data analysis and statistical models

In this study, a correlation study was conducted to find out the relationships between the variables. Each of the four variable, both independent and dependent variables – ARL, independence, expertise and tenure were tested against each other to find out the correlation between them.

This study also uses a regression analysis between the independent variables (audit committee effectiveness) and the dependent variable (audit report lag) to determine the strength and direction between them. In other words, measuring how ARL is dependent on audit committee effectiveness and showing where an increase or decrease in audit committee effectiveness has any impact on ARL at all. Moreover, descriptive statistics have been used to further explore the characteristics of each variable data and provide summaries and insights about them, such as mean, median, mode, standard deviation, and skewness etc. which helped in understanding the distribution, central tendency, and variability of the data.

3.4 Findings and Analysis

3.4.1 Descriptive Statistics

Table 2 presents the descriptive statistics for the variables used in this study, such as audit report lag (ARL), audit committee independence (Independent), audit committee expertise (Expert), and average tenure of the audit committee members (Tenure). The descriptive measures include mean, median, mode, standard deviation, skewness, and range.

Table 3: Descriptive Statistics

	ARL	Independent	Expert	Tenure
Mean	114.73	0.43	0.41	4.42
Median	119.00	0.50	0.40	4.10
Mode	120.00	0.50	0.50	4.00
Std. Deviation	42.26	0.18	0.17	1.63
Skewness	1.87	0.22	0.55	0.21
Range	316.00	0.55	0.60	8.70

The mean audit report lag (ARL) is 114.73 days, with a median of 119 days and a mode of 120 days, suggesting that, on average, companies take approximately 115 days or nearly 4 months to publish their audit reports after the financial year-end. The high standard deviation 42.26 indicates substantial variation among companies in audit report timeliness and the range 316 days further confirms significant disparities in reporting efficiency, possibly due to variations in corporate governance practices, auditor workload, or financial complexity. The skewness value of 1.87 suggests that ARL is positively skewed, meaning that while most companies finalize their reports within the typical timeframe, some extreme cases experience significant delays.

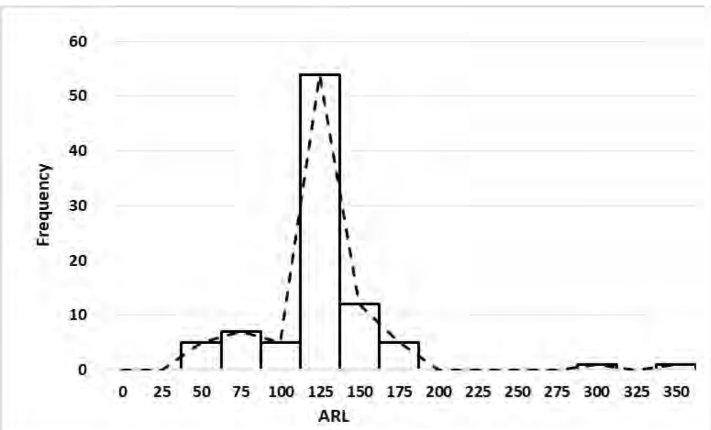

Figure 3: Distribution of Audit Report Lag

The analysis further suggests that many companies have an audit committee composition where nearly 50% of the members are independent. The standard deviation 0.18 shows a relatively moderate dispersion across firms. With a skewness of 0.22, the distribution of independence appears slightly right-skewed but relatively balanced. Moreover, on average, 41% of committee members possess accounting or financial expertise. The median is 0.40, and the mode is 0.50, suggesting that a substantial number of firms ensure that at least 40-50% of their audit committee members have relevant expertise. The standard deviation 0.17 reflects some level of variability, while the skewness 0.55 suggests a slight positive skew, meaning some firms have significantly fewer expert members than the majority. The average tenure of audit committee members is 4.42 years, suggesting that most firms have relatively stable audit committees, with members serving around four years on average. The standard deviation 1.63 indicates moderate variation, and the range 8.70 years suggests that some firms have much longer-tenured audit committees.

3.4.2 Correlation Analysis

Table 3 presents the Pearson correlation coefficients and their significance values (2-tailed test) for the variables under study: Audit Report Lag (ARL), Audit Committee Independence (Independent), Audit Committee Expertise (Expert), and Audit Committee Tenure (Tenure).

Table 4: Correlation Analysis

	Correlation	ARL	Independent	Expert	Tenure
ARL	Pearson Correlation		**-.286****	-0.061	0.065
	Sig. (2-tailed)		0.006	0.569	0.544
Independent	Pearson Correlation	**.286****		**.273****	-0.063
	Sig. (2-tailed)	0.006		0.009	0.553
Expert	Pearson Correlation	0.061	**.273****		**.277****
	Sig. (2-tailed)	0.569	0.009		0.008
Tenure	Pearson Correlation	0.065	-0.063	**.277****	
	Sig. (2-tailed)	0.544	0.553	0.008	

** Correlation is significant at the 0.01 level (2-tailed).

The correlation results indicate that Audit Committee Independence (Independent) has a significant negative correlation with ARL (r = -0.286, p = 0.006). This suggests that higher independence within the audit committee is associated with shorter audit report lag, reinforcing the importance of independent oversight in improving financial reporting timeliness. On the other hand, Audit Committee Expertise (Expert) ($r = -0.061$, $p = 0.569$) and Audit Committee Tenure (Tenure) ($r = 0.065$, $p = 0.544$) show no significant correlation with ARL, although the correlation between expertise and ARL is still inverse or negative. It implies that expertise and tenure do not have a direct impact on the timeliness of audit report publication and independence is comparatively more significant for reducing ARL.

Independence and Expertise show a moderate positive correlation ($r = 0.273$, $p = 0.009$), indicating that firms with more independent audit committees also tend to appoint members with financial expertise. As per the corporate governance code of Bangladesh, a particular category of required qualification for becoming an independent director is to be a qualified professional in accounting or finance (Bangladesh Securities and Exchange Commission, 2018), which might be a likely reason for the positive relation between independence and expertise. Moreover, Expertise and Tenure are positively correlated ($r = 0.277$, $p = 0.008$), suggesting that audit committee members with financial expertise tend to serve longer in their roles. Independence and Tenure ($r = -0.063$, $p = 0.553$) exhibit an insignificant negative correlation, indicating no clear relationship between these two factors. Similar to the previous case, the Corporate Governance Code of Bangladesh plays a role in this relationship. An independent director, serving as an independent audit committee member, can hold tenure for a maximum of six consecutive years. After a three-year break, they may be reappointed for another three years. This restriction may explain why the correlation between independence and tenure is neither significant nor positive.

3.4.3 Regression Analysis

To examine the relationship between Audit Report Lag (ARL) and key audit committee effectiveness factors - independence of audit committee members, tenure, and financial expertise, a multiple regression analysis was conducted.

Table 5: Model Summary

R	R Square	Adjusted R Square	Std. Error of the Estimate
0.289	0.084	0.052	41.154

The regression model yielded an R-value of 0.289, suggesting a weak correlation between the independent variables (independence, tenure, and expertise) and ARL. The R^2 value of 0.084 indicates that only 8.4% of the variance in ARL is explained by these factors. After adjusting for the number of predictors, the adjusted R^2 value drops to 0.052, reinforcing the low explanatory power of the model.

Table 6: Anova

	Sum of Squares	df	Mean Square	F	Sig. (p value)
Regression	13317.25	3	4439.08	2.62	0.056
Residual	145656.35	86	1693.68		
Total	158973.60	89			

The p-value of **0.056** is slightly above **0.05**, meaning the model is not as statistically significant at the 5% level. In other words, the combined effect of the independent variables on ARL is not statistically strong, though it is close to significance.

Table 7: Coefficients

	Unstandardized Coefficients		**Standardized Coefficients**	**t**	**Sig. (p value)**
	B	**Std. Error**	**Beta**		
(Constant)	137.97	17.49		7.887	0.000
Tenure	1.18	2.81	0.046	0.422	0.674
Expert	0.99	28.34	0.004	0.035	0.972
Independent	-67.10	25.66	-0.284	-2.615	0.011

This model analyzes individual contributions of each predictor variable to ARL through their standardized beta coefficients and significance values. Independence showed a statistically significant negative relationship with ARL ($p = 0.011$), indicating that greater audit committee independence shortens audit report lag. The negative coefficient values suggest that as the proportion of independent members increases, audit report finalization time decreases. On the other hand, the tenure of audit committee members was found to be statistically insignificant ($p = 0.674$). Financial expertise also showed no significant relationship with ARL ($p = 0.972$). This suggests that the presence of financially expert members on the audit committee does not necessarily lead to faster audit report issuance.

3.5 Summary and Conclusions

The aim of this study was to explore the impact audit committee effectiveness has on ARL within the pharmaceutical industry of Bangladesh. Audit committee effectiveness is represented by many different characteristics of the audit committee and the ones selected for this study were independence, expertise and tenure, which have shown to have strong relation with audit committee effectiveness and ARL in the previous studies. The findings of this study have shown that independence has strong impact in reducing ARL of a company. On the other hand, from the selected factors, tenure of the members did not appear to have any significant influence on ARL. Even though longer tenure may improve their familiarity and understanding, regulatory policies in Bangladesh limit the tenure for the members in the audit committee, especially for the independent members. Similarly, the financial expertise of audit committee members also does not show a clear influence on audit timeliness. Even though studies have shown that audit committee characteristics have influence over the ARL, they are not the only determinant. First of all, this study only incorporates 3 variables and there are various other characteristics that may impact the effectiveness of the audit committee. Other than audit committee effectiveness, there are various other factors not related to audit committee that can impact ARL, such as the size and reputation of the external audit firm (Wijaya & Permatasari, 2024), the effectiveness of auditors (Abdillah et al., 2019), business complexities and business risk (Jaggi & Tsui, 1999), and the financial health of the company (Widiastuti & Rofiqoh, 2024).

3.5 Recommendations

To improve the timeliness of audit report or simply to reduce ARL, companies should prefer to appoint independent directors in the audit committees and ensure that they are given enough authority to access and overall, the financial reporting. Since independence have been shown to have significant impact on reducing ARL, the regulators should also consider to allow the independent directors to have a longer tenure within the company. Also, financial experts, especially financial experts and independent directors should be actively engaged in the reporting process and strictly monitor and guide it, oversee the internal controls to reduce risks related to them to reduce the overall audit risk and ARL. Smoother collaboration between audit committee and external auditors can also improve this process. This study contributes to the existing literature on ARL by focusing on the role of audit committee effectiveness. It shows that just having longer serving members or financial experts in the panel is not sufficient, rather they should also participate in the process objectively as independent members.

Though this study provides some insights into this literature, the limitations should also be acknowledged. First of all, it only focuses on the listed pharmaceutical companies in Bangladesh, while there are many other listed and unlisted companies in several different industries and their data could not be incorporated into the study. Moreover, it also does not consider many other factors that can impact ARL. Lastly, the study does not take into account any qualitative factors that can also have impact over ARL.

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