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FINANCIAL EXPERTISE, AUDIT QUALITY, AND INTELLECTUAL CAPITAL TOWARD LIBYAN BANKS PERFORMANCE AND REPORTING

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***Abstract*:** In the realm of financial studies, understanding the intricate dynamics between various variables is paramount. This study embarks on an exhaustive review of existing literature to construct a cohesive framework paper that delineates the relationships between key financial variables. The study introduces three primary independent variables: Financial expertise, Internal audit quality, and Intellectual capital with the latter further subdivided into Human capital, Customer capital, and Organizational capital. Moreover, Bank performance is presented as a mediating variable, accentuating its role in influencing financial reporting quality, the study's dependent variable. By unearthing the nuanced interconnections among these elements, the study offers a structured perspective on how distinct financial facets converge to shape the quality of financial reporting within the banking sector. This paper serves as a foundation for stakeholders, researchers, and industry professionals, elucidating the significance and interplay of these financial determinants.
Keywords: *Financial expertise, Internal audit quality, Intellectual capital, Human capital, Customer capital, Organizational capital, Bank performance, and Financial reporting quality*

INTRODUCTION

The banking sector is the linchpin of the financial system (Masli et al., 2022). In Libya, banks stand as the paramount financial entities. Drawing from pertinent theoretical and empirical research, there's a consensus that the banking sector significantly bolsters Libya's economic vigor. Moreover, there's a sustained, positive interdependency between the banking sector and economic growth (Elsharif, 2019).

Banks are pivotal conduits for monetary flow within the financial landscape. Superior performance by banks implies a more pronounced contribution to the financial realm. In this context, banks' financial disclosures serve as the primary means of delivering financial insights to a broad spectrum of stakeholders (Jiang & Chen, 2019). Enhanced report quality translates to better dissemination of knowledge within the financial domain, equipping stakeholders to assess the fiscal standing of the banking sector.

High-quality accounting information meets specific qualitative attributes, making it invaluable for both accountability and informed decision-making (Dobija et al., 2022). Transparent bank management hinges on the caliber of this accounting data. Informed decisions rooted in precise financial intel allow the banking sector to expand and diversify its offerings.

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Moreover, top-notch financial data facilitates robust accountability within banking establishments. This applies both horizontally (across various departments) and vertically (across management hierarchies). It also empowers employees to actively engage, providing insights that steer financial decision-making (Pham et al., 2021). For accounting information to be deemed of superior quality, it must embody key qualitative traits like relevance, clarity, punctuality, comparability, and verifiability.

In the banking arena, accountability is manifested through the generation of detailed financial accounts on the management of allocated resources, activities, and sustained service delivery. The sector's efficacy is gauged by scrutinizing these financial documents, which are instruments that furnish comprehensive fiscal intel. Efficient utilization of these resources is contingent upon adept management of both human and infrastructural bank assets (Hussinki et al., 2017).

Transparency in bank management fundamentally hinges on the caliber of accounting information. When financial data is dependable, decisions are anchored in factual reasons, ensuring sustained growth and broadening of financial services (Alipour et al., 2019). High-grade financial data supports thorough accountability, both laterally (among distinct public entities) and vertically (between executives and stakeholders). Such clarity invites investor engagement, providing a solid foundation for informed decision-making, thus enhancing the trustworthiness of the disseminated accounting data.

For financial accounting data to be deemed high-quality, it must suitably embody the attributes that qualify it as useful for accountability and insightful decision-making (Baatwah et al., 2021). Specifically, for the banking realm, crafting this premium-grade accounting and financial intel clarifies its pivotal role in safeguarding and propelling the evolution of Libya's banking sector.

Ahmed Abdelsid (2020) pinpointed the subpar financial reporting standards of Libyan banks to deficiencies in qualifications, suggesting that bolstering human capital could be the remedy. This sentiment echoes Barghathi (2019) findings, which linked the mediocre financial reporting standards of Libyan banks to both tepid bank performance and a knowledge growth vacuum. Figure 1 delineates that from 2012 to 2020, the financial metrics of Libyan commercial banks charted a stagnant trajectory. Taking into account soaring inflation, this documented trend underscores a modest erosion in intrinsic worth, necessitating strategic interventions for performance enhancement.

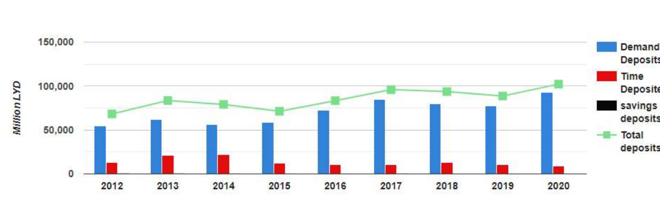

Figure 1: Financial indicators of Libyan commercial banks

Source: Libyan central bank

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Financial expertise

Financial expertise is the specialized insight, credentials, and abilities that individuals have when dealing with financial documentation and evaluation within a corporation. It dives deep into comprehensive knowledge of accounting norms, financial rules, the breakdown of financial statements, and the prowess to decipher and utilize intricate financial data for decision-making and precise financial documentation (Andon, Free, & McInnes, 2017; Choi & Jeter, 1992).

For those occupying financial reporting roles in entities, financial expertise is a fundamental trait. It marries technical understanding, hands-on experience, and fluency in fiscal accounting and disclosure protocols. Individuals with financial expertise have the capability to delve into financial records, elucidate financial documents, and make well-grounded decisions concerning accounting methodologies and financial revelations.

Ensuring the correctness, consistency, and clarity of financial reports hinges on financial expertise. Those armed with this expertise can adeptly tackle the nuanced aspects of accounting protocols and guidelines. This expertise facilitates the correct employment of accounting frameworks and reporting prerequisites. Additionally, it enables the spotting and rectification of intricate accounting dilemmas, culminating in clearer and more insightful financial reports.

Financial expertise is indispensable in guiding sound decisions in entities. Those endowed with this expertise can offer insightful critiques and evaluations on fiscal data, steering executives to make judicious strategic and operational choices. Their adeptness at interpreting financial data aids in appraising the fiscal robustness and performance of the corporation, highlighting areas ripe for enhancement, and gauging the ramifications of various fiscal choices.

Research accentuates the value of financial expertise in enhancing the quality of financial documentation. A study by Andon et al. (2017) observed a favorable nexus between financial expertise of audit committee participants and the standard of financial reporting, implying that audit committee members with pronounced financial expertise elevate the standard of financial documentation.

In a nutshell, financial expertise stands as an essential trait for those in the realm of financial reporting. This expertise, combining technical acumen, experience, and skill, equips individuals to make sense of sophisticated financial data, apply the right accounting standards, and craft well-founded judgments in the realm of financial reporting. Such expertise is pivotal in crafting accurate financial disclosures, amplifying transparency, and facilitating informed decision-making in corporations.

Internal audit quality

Internal audit quality delineates the competency, effectiveness, and overall distinction of an entity's internal auditing capacity in delivering unbiased and neutral evaluations of risk oversight, control mechanisms, and organizational governance. It reflects how well the internal auditing role contributes to the entity by pinpointing potential hazards, refining control measures, and offering pertinent and trustworthy data to the organization's leadership and its stakeholders (Altamony,

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Benlemlih, & Girod, 2020; Krishnan, 2005).

The role of internal audit quality is paramount in shaping an entity's comprehensive governance and oversight structure. A proficient internal auditing capacity is pivotal for boosting operational effectiveness, curtailing potential risks, and assuring adherence to both internal guidelines and regulatory mandates. Superior internal audits extend an autonomous confirmation to leadership and stakeholders about the robustness and efficacy of the entity's risk oversight and control practices.

Research underscores the multifaceted benefits linked to internal audit quality. Altamony et al. (2020), for example, discerned a positive correlation between internal audit quality and the integrity of earnings, implying that top-notch internal auditing underpins the generation of trustworthy and precise fiscal data. Similarly, Krishnan (2005) emphasized the positive ripple effects of superior internal auditing capabilities on the efficacy of internal controls, empowering organizations with advanced risk oversight and fraud spotting abilities.

Multiple elements underpin internal audit quality. Maintaining the neutrality and independence of the internal auditing role is fundamental, safeguarding auditors' unbiased stance and shielding them from potential biases. Also, proficiency and specialization stand as cornerstones; internal auditors need to be equipped with the aptitude and insights to probe intricate operational facets and critically assess control architectures.

Moreover, adopting a risk-centric methodology is quintessential for internal audit quality. Such an approach warrants that auditing endeavors concentrate on domains bearing substantial risk implications for the entity, thereby calibrating audit priorities. Sufficient resources, which span competent staff and advanced technological tools, are imperative to bolster the internal auditing function in its pursuit of exemplary audits.

In essence, internal audit quality is central to elevating an organization's governance, risk assessment, and oversight measures. By adding value through hazard identification, control refinement, and reliable data dissemination, a high-caliber internal auditing function buttresses decision-making and promotes transparent financial disclosures.

Intellectual capital

Intellectual capital encompasses an organization's non-physical assets, instrumental in forging its value proposition and distinguishing edge in the market (Dalwai et al., 2022). This category of assets encapsulates the collective wisdom, prowess, abilities, and proficiencies of its workforce, as well as its intellectual rights, manifesting as patents, copyrights, and trademarks (Campos et al., 2022). Additionally, intellectual capital integrates the organizational frameworks, methodologies, and digital tools, like databases and software solutions. The connections a firm cultivates with its varied stakeholders, ranging from patrons to financiers, are also pivotal components of intellectual capital.

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Harnessing intellectual capital can bestow a distinctive edge upon businesses, given the inherent challenge competitors face in mirroring these non-physical assets (Bryl et al., 2022). As such, organizations need to manage their intellectual Thus, enterprises must astutely govern their intellectual capital to sustain their market prominence and deliver meaningful value to their affiliates (Bhattu-Babajee & Seetanah, 2022). Steering intellectual capital mandates, the discernment, evaluation, and application of these non-tangible assets to bolster operational excellence and realize overarching objectives.

Within the realm of banking, intellectual capital signifies the non-tangible assets underscoring a bank's potential for value derivation and its unique positioning. These non-material assets are commonly segmented into three foundational pillars (Barrutia & Echebarria, 2022; Bataineh et al., 2022; Beltramino et al., 2022): human capital, structural capital, and relational capital.

Prudent stewardship of intellectual capital in the banking domain can empower institutions to attain commendable outcomes, enrich stakeholder value, and fortify their competitive stature. Banks can channel investments into capacity-building initiatives, enhancing their workforce's acumen and dexterity, pioneer tech-driven solutions to refine their functionalities, and nurture robust affiliations with their clientele, fostering loyalty and minimizing attrition.

Multiple frameworks delineating intellectual capital have emerged since its theoretical inception in the 1990s. Initial categorizations are attributed to thought leaders such as Brooking and Motta (1996), Sveiby (1997), and Edvisson and Malone (1997). Notably, Edvinsson and Malone's (1997) framework, tailored for Skandia AFS, gained significant traction. Initially, they demarcated intellectual capital into two facets: human capital and structural capital. Subsequently, in their refined perspective (Edvisson and Malone, 2003), they expanded intellectual capital to encompass three segments: human capital, structural capital, and client capital.

- **Human capital**

The primary component pertains to individuals, commonly termed human capital. The subsequent component, encompassing processes, organizational structures, technology, and innovation, is labelled structural capital. Notably, some frameworks distinguish the technological element from the organizational aspect. The third component addresses the facets connecting the enterprise with its clientele, denoted as client or relational capital. While there's an intrinsic connection between the assets comprising each intellectual capital segment, distinguishing characteristics exist for each. Grasping these unique features, as well as their varied nomenclatures across authors, is crucial. For instance, in Kaplan and Norton's Balanced Scorecard (1993), the domain of human capital is encapsulated under the "learning and growth perspective", emphasizing the competencies, talents, and inspirations of the workforce.

Within the Technology Broker Model (1997), assets centered on individuals fall under human capital. This encompasses domains like expertise, inventiveness, adeptness at problem-solving, leadership prowess, and the managerial acumen of individuals. Conversely, theorists like Saint

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Onge (1996), Edvinsson and Malone (1997), Bontis (1998), Intellectus CIC (2003), and the subsequent Intellectus CIC (2011) rendition, utilize the term human capital, enveloping attributes such as values, knowledge, abilities, and originality. In the Skandia Navigator's model (1997), the segment dubbed "human focus" sheds light on human capital by emphasizing aspects like individuals' motivation, leadership, and knowledge. Meanwhile, Sveiby's Intangible Assets Monitor (1997) defines human capital as "competencies", highlighting attributes like educational background, professional experience, ethical standards, and interpersonal prowess.

- **Organizational capital**

In Bontis' model from the University of Ontario (1998), human capital encompasses personal skills and knowledge. The Euroforum's definition (1998) extends to skills, leadership, stability, and satisfaction, while Intellectus CIC captures values, individual knowledge, and capabilities. Structural Capital is represented in the Balanced Scorecard as the "internal processes perspective", which touches on innovation and internal operations. The intangible assets monitor (1997) refers to it as internal structure, emphasizing culture, informal organizational structures, internal connectivity, and administrative and computer systems. Authors like Saint Onge (1996), Edvinsson and Malone (1997), Euroforum (1998), and Bontis (1998) term it as structural capital, which integrates systems, structures, strategic approaches, culture, brand identities, and patents. Euroforum (1998) further elaborates it with a focus on culture, organizational philosophy, processes, structures, and intellectual properties. The Skandia Navigator (1997) designates it as the process approach, with a concentration on processes and IT systems.

The Technology Broker Model (1997) differentiates structural capital into two subsets: infrastructure assets, which relate to organizational assets, and intellectual property assets tied to technological endowments. The Intellectus CIC Model (2003) presents two facets of organizational capital: one capturing culture, structural elements, organizational learning, and processes, and the other dealing with technology, encompassing R&D, technological foundations, innovation, and intellectual properties. The updated Intellectus CIC Model (2011) organizes organizational capital around culture, structural components, learning within the organization, and processes involving clients and suppliers. In contrast, technological capital focuses on R&D endeavors, technological assets, intellectual and industrial properties, and technology-focused surveillance.

- **Customer capital**

Within the realm of Relational Capital, the scorecard terms it as the client perspective, emphasizing elements like customer acquisition and retention. Saint Onge (1996) and Wester Ontario de Bontis (1998) refer to it as client capital, spotlighting coverage, customer loyalty, profitability, and relationships with both suppliers and customers. The Techology Broker Model (1997) labels market assets as relational capital, highlighting distribution channels, reputation, brands, and licenses. Interestingly, for Edvisson and Malone, client capital is encapsulated within structural capital. Skandia's Browser Model (1997) identifies the client focus as Relational Capital.

Meanwhile, the Intelect Model specifies relational capital elements like relationships with customers, suppliers, allies, other agents, and reputation. The Intellectus Model along with Bueno et al (2004) bifurcates Relational Capital into business capital (relating to market agents) and social capital (concerning other environmental agents).

In the revised Intellectus Model, relational capital splits into two categories: the business capital group, which encapsulates relationships with customers, suppliers, shareholders, investors, allies, competitors, quality promotion entities, and employees, and the social capital group, focusing on ties with public administrations, media, environment advocates, corporate entities, reputation, and corporate imagery (Fidanbas & Irdan, 2019). This updated Intellectus Model introduces Entrepreneurship and Innovation Capital, which encompasses innovation outcomes, innovation endeavors, and the entrepreneurial mindset and capability.

In summary, upon examining the various intellectual capital models, it becomes evident that there's more overlap than discrepancies across their components. Human Capital consistently appears across models with minimal variation in naming. A similar trend is observed with Structural Capital, where some differentiate it into Technological and Organizational Capital or Structural and Innovation Capital, but the dominant label remains structural capital (Fitriasari & Sari, 2019). Relational Capital, regardless of its specific label, signifies the company's ties with various internal and external stakeholders, such as customers, suppliers, employees, shareholders, and societal agents. Conclusively, for the purposes of our study, we'll recognize human capital, structural capital, relational capital, and entrepreneurship and innovation capital as the pillars of Intellectual Capital.

Bank performance

Bank performance encapsulates how efficiently a bank meets its strategic goals and how adeptly it employs its resources to generate value for its stakeholders (Bamel et al., 2022; Bananuka et al., 2022). By managing intellectual capital components like human, structural, and relational capital, banks can bolster their performance on these crucial metrics. Making strides in areas such as employee growth, technological innovation, fostering robust client and stakeholder relations, and robust risk management can position banks for sustained success and stakeholder value creation.

The Libyan banking sector, as highlighted by Maqableh et al. (2023), has grappled with significant impediments, spanning from political upheavals, currency fluctuations, to dwindling oil revenues - all adversely influencing the nation's economic rhythm. The repercussions of the COVID-19 pandemic have further strained the Libyan banking sector's financial health due to diminished economic vigor and escalated risks.

Predicaments for Libyan banks include dwindling profit margins, escalating non-performing loans (NPLs), liquidity challenges, and subpar risk management strategies (Aeshah, 2022). Ineffectual governance paired with insufficient regulatory scrutiny have exacerbated the banking sector's issues in Libya. To elevate their performance, it's pivotal for Libyan banks to amplify their risk management, enhance governance frameworks, boost liquidity, and innovate in product and

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service offerings to captivate and uphold their clientele. A parallel emphasis on human capital, especially in employee training, can augment the expertise of banking personnel, culminating in sustained performance enhancement.

In essence, bank performance evaluates a bank's prowess in profit generation, risk oversight, and delivering stellar financial services to its clientele (Nurunnabi, 2021). This performance is typically gauged through financial indicators like return on assets (ROA), return on equity (ROE), loan-to-deposit ratio (LDR), non-performing loans (NPLs), and net interest margin (NIM) as highlighted by (Madawaki et al., 2021). These indicators shed light on a bank's fiscal wellbeing, revenue generation capabilities, risk management proficiency, and the trust it commands from its customers. A bank's performance trajectory can be swayed by elements like economic climate, regulatory frameworks, competitive dynamics, and evolving consumer preferences.

Financial reporting quality

Financial reporting quality embodies the precision, comprehensiveness, pertinence, and clarity in a company's financial disclosures found in its financial statements such as the balance sheet, income statement, and cash flow statement (Soriya & Rastogi, 2023). For stakeholders encompassing investors, creditors, regulatory bodies, and the broader public, high-caliber financial reporting is paramount for discerning insights about a company's financial health, standing, and future potential.

Optimal stewardship of intellectual capital, comprising human, structural, and relational capital, can pave the way for superior financial reporting quality within an organization (Saleh et al., 2022). For instance, employees equipped with robust training and expertise can guarantee that financial documents align with GAAP standards. Concurrently, efficient internal control mechanisms paired with advanced IT infrastructure can bolster the punctual and accurate formulation of financial documents (Saha, 2022). Nurturing solid bonds with external entities like auditors and regulatory bodies can augment the transparency of financial disclosures and ensure they adhere to regulatory stipulations.

International Financial Reporting Standards (IFRS), curated and overseen by the International Accounting Standards Board (IASB), serve as a uniform accounting lexicon to elevate the clarity and quality of corporate financial disclosures (Nicolò et al., 2022). The incorporation of IFRS can augment financial reporting quality by presenting a harmonized accounting framework that accentuates uniformity and comparability in financial disclosures (Ngo & Nguyen, 2022). Under IFRS mandates, firms must unveil crucial and significant data in their financial reports, bolstering clarity and aiding stakeholders in their decision-making processes.

Moreover, IFRS stipulates that organizations delineate extensive insights concerning potential risks and the underlying assumptions shaping their financial documents (Mardessi, 2022). Such disclosures empower stakeholders to gain a deeper grasp of the firm's fiscal stance and potential trajectories. The broad-based acceptance and application of IFRS by a multitude of stakeholders, from regulatory entities to investors, can magnify the trustworthiness of financial disclosures

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(Madawaki et al., 2022). This trust can, in turn, foster investor trust, diminish information disparities, and draw capital towards entities upholding stellar financial reporting standards (Klish et al., 2022). In summation, IFRS adoption can be a linchpin for heightening financial reporting quality, underscoring the virtues of transparency, consistency, and credibility in corporate financial disclosures.

Theoretical Framework

The factors influencing financial reporting quality have garnered significant attention, although the majority of studies have mainly focused on indicators of bank performance and the quality of audits. Various theories and models exist that elucidate elements leading to superior financial reporting quality. This research hinges on five distinct theories: human capital theory, value-added intellectual capital, the knowledge-based perspective, the resource and capability theory, and the theory of information asymmetry. The foundation for these theories' selection lies in their emphasis on information and knowledge, given that financial reporting quality heavily relies on the content of information. Such theories aim to refine the content by ameliorating its quality. With insights from the knowledge-based perspective and resource and capability theory, knowledge stands out as the cornerstone for an organization, amplifying its market reach and enriching its resources.

Employing a multifaceted theoretical framework, encompassing human capital theory, value-added intellectual capital, knowledge-based perspective, resource and capability theory, and information asymmetry theory, furnishes an in-depth comprehension of intellectual capital's role in shaping banks' performance and the quality of their financial reporting. The human capital theory underscores the significance of the expertise, knowledge, and competencies of employees. In contrast, the value-added intellectual capital evaluates the efficacy of an entity's intellectual capital and its bearing on financial outcomes. The knowledge-based perspective accentuates the pivotal role of knowledge in forging a lasting competitive edge, and the resource and capability theory underscores the bank's resources and expertise in realizing exemplary performance. Lastly, the theory of information asymmetry emphasizes the need to bridge the knowledge gap between a bank and its stakeholders to elevate the quality of financial reporting and overall performance.

Utilizing these theoretical frameworks enables scholars to craft a holistic understanding of performance drivers and financial reporting quality within banks. This deeper insight facilitates pinpointing potential enhancements, guiding informed choices regarding optimizing and capitalizing on intellectual capital for enduring success.

Informed by the Intellectual Capital theory formulated by Edvisson and Malone (1997), intellectual capital encompasses two primary facets: human capital and structural capital. While intellectual capital signifies the overarching and strategic outlook of intellectual assets, knowledge pertains to the individual elements of these assets from a tactical and functional viewpoint. Intellectual capital embodies the capability to metamorphose knowledge and non-tangible assets into monetary value, fostering resource generation, and the governance of intellectual capital becomes the avenue for deriving value from this knowledge.

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With the intricate nature of the corporate realm, there's a surging need for transparency, extending beyond just the provision of top-tier financial documents to include disclosures on corporate governance, sustainability, and specialized reports (Fiano et al., 2022; Hatane et al., 2022). Solely through standardized reporting, investors fall short of gleaning all requisite details for decision-making, prompting them to seek proprietary insights into corporate actions. The prevalence of such informational discrepancies introduces ambiguities into stock markets, compounded by the introduction of costs due to informed investors leveraging their privileged knowledge in dealings.

Historical academic works emphasize that corporate disclosure decisions, depicted through aspects like income quality, disclosure strategies, or voluntary profit revelations, influence the aforementioned informational disparities and stock market uncertainties, which consequently shape the capital costs borne by businesses. In the context of information imbalances, past studies unanimously highlight corporate disclosure routines as a means to refine market efficacy and tackle discrepancies. A company's disclosure strategy impacts this informational peril by shifting the balance of public and private knowledge among investors (Esmaeili Givi et al., 2022). Consequently, academic literature on financial data suggests that businesses furnish details to mitigate these imbalances. (Dharni & Jameel, 2022) Investors can access this data via various avenues, including financial report disclosures or supplementary revelations, as empirically evidenced by scholars such as (Kaawaase et al., 2021a; Khan et al., 2021).

conceptual framework

Research by Nawaz (2019), Rahman and Akhter (2021), Vo and Tran (2021), Adesina (2021), Inyada (2018), and Hameed and Anwar (2018) establish a positive correlation between human capital, corporate governance, and bank performance spanning diverse nations and banking systems. Banks that prioritize human capital investment, strengthen corporate governance, and advocate for a culture of continuous learning and innovation often witness improved financial outcomes, enhanced customer satisfaction, and sustained success.

Hameed and Anwar's 2018 investigation into the correlation between intellectual capital and organizational output in Kurdistan's private banks identified a positive link between intellectual capital components (namely human capital, structural capital, and customer capital) and organizational outcomes. Such findings imply that banks can elevate their performance metrics by amplifying investments in intellectual capital. Researches by Ur Rehman et al. (2022), Sannino et al. (2021), and Muhammad Haris et al. (2019) assessed the influence of organizational capital on bank performance across banks in Pakistan, Turkey, and Malaysia. Each of these studies concluded that organizational capital positively steers bank performance, spurring innovation, enhancing customer contentment and loyalty, and laying the foundation for lasting triumph.

Scrutiny into how internal audit quality affects bank performance has yielded notable revelations. A consistent observation is the beneficial impact of internal audit quality on bank outcomes. A high-caliber internal audit mechanism is instrumental in fortifying risk management in banks, culminating in superior performance trajectories. Academic evidence suggests that

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rigorous internal audit methodologies are pivotal in pinpointing and neutralizing risks, bolstering internal safeguards, and championing robust governance standards. Cumulatively, these elements foster enhanced risk-adjusted outcomes and overall financial excellence for banks (Baker & Talbot, 2016; DeYoung et al., 2019).

Extensive research has delved into financial expertise's role in molding bank performance. Such inquiries consistently establish a favorable connection between financial expertise and bank performance metrics. Banks armed with a cadre of financially astute professionals tend to manifest superior decision-making process, translating to improved financial outcomes. Financial acumen empowers individuals to decipher intricate financial narratives, assess investment prospects, and make judicious judgments concerning capital distribution and risk governance. This proficiency underpins heightened profitability, operational efficiency, and overarching bank performance (Kostovetsky & Philipov, 2019; Wansley et al., 2015).

Odunayo et al. (2022) probed the nexus between human capital diversity and the caliber of financial reporting among listed manufacturing enterprises in Nigeria. They discerned a favorable association between heightened human capital diversity parameters (such as gender, age, educational pedigree, and experience) and the quality of financial reporting. The implication is that by championing workforce diversity and adherence to global reporting norms, Nigerian manufacturing entities can augment their financial reporting standards.

Several scholarly endeavors have pivoted on discerning the influence of internal audit quality on the quality of financial reporting. The prevailing consensus underscores the beneficial impact of internal audit quality on the standard of financial reporting. An efficacious internal audit mechanism amplifies the quality of financial reporting practices by accentuating the robustness of internal controls. Such audit standards are quintessential in identifying and rectifying potential discrepancies or misrepresentations in reporting, ensuring financial statements' precision and reliability (Arena et al., 2019; Carmona & Trombetta, 2019).

Academic literature bears testament to financial expertise's instrumental role in refining the quality of financial reporting. Individuals endowed with financial proficiency possess the requisite knowledge and capability to accurately navigate accounting norms, implement reporting directives, and maintain regulatory compliance. This dexterity equips them to grapple with challenging accounting conundrums, invariably elevating financial reporting standards.

In summation, a plethora of studies, including those by Lee & Yu (2021), Nawaz (2019), Odunayo et al. (2022), Poh et al. (2018), Soewarno & Tjahjadi (2020), and Vitolla, Salvi, et al. (2020), validates the positive interplay between internal audit quality, financial expertise, intellectual capital, and the standard of financial reporting in the banking milieu. Research exemplified by Nawaz (2019) and Inyada (2018) demonstrates that bank performance acts as an intermediary in this relationship, amplifying the influence of internal audit quality, financial expertise, and intellectual capital on the quality of financial reporting. Empirical findings (A Al-Dmour et al., 2018; Rakhman & Wijayana, 2019; Pistoni et al., 2018) lend credence to theories/models centered on intangible assets and their bearing on bank performance. Nevertheless, there's a conspicuous paucity of literature pinpointing the mediating role of bank

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performance concerning the relationship between customer capital and the standard of financial reporting. The significance of organizational capital on bank performance is palpably illustrated (Bayraktaroglu et al., 2019b; Smriti & Das, 2018; Hamdan, 2018), while the knowledge-based view theory extols financial reporting quality as an information disclosure paradigm (Muttakin et al., 2020), anchored in organizational resources (Wilson et al., 2018).

Based on the above arguments, the current paper proposes the framework that shown in Figure 2.

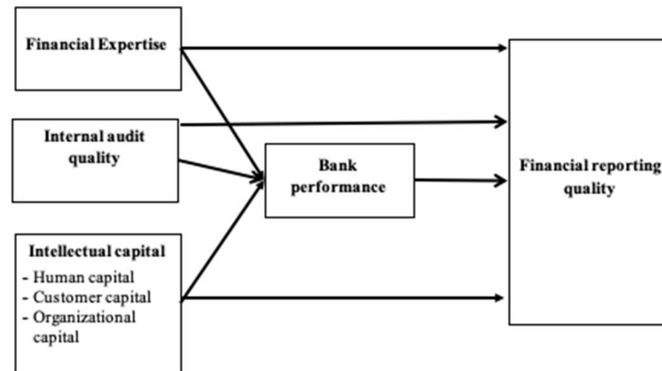

Figure 2: Research Conceptual Framework

Conclusion

In the presented study, a thorough exploration of existing literature was undertaken to develop a foundational understanding of the research variables, leading to the formulation of a comprehensive framework paper. Through a meticulous review of prior studies, definitions were extrapolated and detailed discussions surrounding key variables, namely financial expertise, Internal audit quality, Intellectual capital (encompassing Human capital, Customer capital, and Organizational capital), Bank performance, and financial reporting quality, were presented.

Drawing from the depth of the literature, it becomes evident that each variable, be it independent, mediating, or dependent, holds significant importance in the domain of financial studies. The intricate relationships between these variables underscore the nuanced interplay of factors that dictate the quality of financial reporting within the banking sector.

The tripartite division of Intellectual capital into Human capital, Customer capital, and Organizational capital underscores the multifaceted nature of Intellectual capital and its overarching role in influencing bank performance and, subsequently, financial reporting quality.

With Bank performance positioned as a mediating variable, its critical role in bridging the influence of independent variables on financial reporting quality is emphasized. This central placement in the framework indicates that while elements like financial expertise, Internal audit quality, and Intellectual capital are vital, their impact on financial reporting quality is substantially mediated by the overarching performance of the bank.

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In conclusion, this study offers a structured framework drawn from a rich array of literature. It illuminates the interconnectedness of various financial variables and their collective influence on the quality of financial reporting. As the financial arena continues to evolve, grasping these dynamics remains paramount for stakeholders, researchers, and industry professionals. This study, by elucidating these relationships, establishes a solid foundation for subsequent research in this field.

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