

# **Impact of Regulatory Framework and Sustainable Accountability on Accounting Practices in the Banking Industry of Bangladesh: The Mediating Role of Internal Auditing**

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## **Abstract:**

The banking industry of Bangladesh operates underneath strict regulations which rely on accounting systems for maintaining financial transparency and operational stability and regulatory compliance. The performance of these practices depends on the existing regulatory structures along with sustainable accountability initiatives. This investigation studies the effect of regulated policies alongside sustainable accountability practices and their connection through internal auditing on banking sector accounting practices in Bangladesh. The study adopts SEM to evaluate primary data gathered from 400 banking professionals through its quantitative analysis framework. This research model uses sustainable accountability together with internal auditing as well as regulatory framework and accounting practices as its essential constructs. This study employed Cronbach's alpha together with Composite Reliability (CR) and Average Variance Extracted (AVE) and discriminant validity tests HTMT and Fornell-Larcker criterion to verify the research findings' validity. The performed mediation analysis evaluated the indirect relationship between regulatory framework and sustainable accountability on accounting practices using internal auditing as the intervening variable. The study presented evidence which shows that regulatory compliance leads to substantial improvements in internal auditing and accounting practice systems through its vital function of financial governance enforcement. Research results confirmed the mediating capability of internal auditing by showing how it boosts accounting practices significantly. The variable of sustainable accountability impacts internal auditing strongly but its influence on accounting practices occurs only through an indirect mechanism. The mediation analysis demonstrates how internal auditing functions as the key element which creates a link between regulatory policies and sustainable accountability for better accounting practices. The research adds conceptual insights about financial governance by advancing knowledge regarding banking sector compliance regulation and internal auditing together with sustainability measures. The research provides guidelines for financial regulators as well as banking institutions and policymakers about how to improve internal auditing systems and intensify regulatory control and incorporate sustainability aspects within financial reporting frameworks.

**Keywords:** Regulatory Framework, Sustainable Accountability, Accounting Practices, Banking Industry, Internal Auditing, Financial Governance, Bangladesh.

## 1.0 Introduction

The banking industry within Bangladesh has experienced large-scale changes through improved regulatory requirements and better methods of sustainable accountability practice. These elements should work together because they lead to better accounting practices in the sector. The establishment of regulatory frameworks provides banking standards and regulations to banks and sustainable accountability incorporates ethical reporting practices with transparency. Organizations need internal auditing for mediating their operation between compliance with regulations while maintaining sustainability principles.

Bangladesh has progressed its banking sector regulations to solve various operational problems that affect corporate governance functions as well as risk control and monetary system stability. Hossain et al. (2022) established that independent audit committees directly enhance shareholder values because they represent fundamental governance structures required for better banking sector performance. The establishment of comprehensive Shariah governance frameworks for Islamic banks showed the need to develop bank-specific regulatory guidelines that cater to their exceptional operational requirements (Alam et al., 2020). Financial regulatory requirements as well as ethical standards which comprise Islamic finance can only be met through these necessary frameworks. The partnerships that Bangladesh Bank has established with global organizations for green banking initiatives help strengthen financial institution regulations as per Khairunnessa et al. (2021).

Today corporate governance counts sustainable accountability in banking institutions among its essential elements. This concept encompasses not only financial performance but also the social and environmental impacts of banking operations. Sustainability reporting quality relies on regulatory frameworks as well as mandatory reporting standards like the Global Reporting Initiative (GRI) according to Khan et al. (2020). Banks have a responsibility to conduct their operations in socially oriented and environmentally sustainable ways which builds reputation as well as trust from stakeholders according to Subedi (2024). The research demonstrates financial institutions implementing sustainability enhance their operational efficiency as well as their financial performance (Sharma, 2023). Financial results of banks improve because of corporate social responsibility (CSR) initiatives incorporated into banking operations according to Bhuiyan et al. (2021) which demonstrates that sustainability and profitability do not need to be separate. When banks focus on sustainability reporting within their operations they can build better reputational strength and stakeholder faith because they become more competitive in the marketplace (Khan et al., 2020).

Internal auditing stands as the primary mechanism which connects regulatory requirements to sustainable accountability standards in banking institutions. Internal audits succeed based on three important elements which consist of independent audit function along with objective auditing methods according to Parves&Bhuyan (2023) as well as sufficient resources and well-qualified auditors. The commitment of independent internal auditors is essential because they verify how banks handle their responsibilities to both regulatory demands and sustainable practices (Malini, 2021). Risk-based auditing approaches implementation according to international standards enables internal auditors to detect and reduce the risks affecting financial reporting and operational practices (Mir &Bhat, 2022). The integration of chance-based auditing methods following international standards enables internal auditors to find and counteract financial reporting along with operational practice risks (Dharmawati, 2024). Internal audit functions demonstrate their effectiveness through three main conditions which combine auditor independence with objective practice along with sufficient resources while working toward

matching organizational risks (Puad et al., 2020). Internal audits with high quality lead to better financial reporting along with regulatory compliance and thus build accountable banking institutions according to Ali (2023). The adoption of risk-based auditing techniques enables internal auditors to discover and minimize financial reporting and operational practice risks that improve the total governance structure according to Umar (2022). A strong banking sector that adapts well to present financial complexities depends on the active relation of regulatory systems with sustainable accountability standards and internal audit practices.

The banking industry of Bangladesh experiences deep changes through the integrated influence of regulatory frameworks and sustainable accountability measures. Internal audit requires a central position to guarantee banks fulfill regulatory standards along with embedding sustainable practices throughout their operations. The banking sector needs to contrivance strong governance structures alongside operative internal audits together with sustainable practices because these measures will improve economic outcomes while earning stakeholder confidence.

## **2.0 Literature Review**

### **2.1 Regulatory Framework and Accounting Practices**

The banking industry of Bangladesh faces numerous complexities in its regulatory framework-accounting practice relationship which combines aspects of governance and risk management and financial reporting. The research review analyzes published studies to analyze regulatory mechanisms affecting bank accounting procedures in the specific case of Bangladesh.

The purpose of regulatory frameworks is to protect the banking system both financially and operationally stable. A broad set of rules and standards exist which banking institutions must follow and these standards directly modify their accounting procedures. Statistical research demonstrates that banks improve financial stability through stricter regulation because it enhances both governance and risk management system (Aysan, 2024). The regulatory framework of Bangladesh evolves through both domestic and global standards that encompass Basel Accords requirements for capital reserve management as explained by Mahmud (2022). The rules determine bank reporting structure for financial performance beside earning management and loan loss provisioning (Luu et al., 2023). The positive effect of ICT on food security is highly dependent on reliable and sustainable energy sources. Inconsistent energy supply in some South Asian regions limits the functionality of ICT platforms for farmers (Rahaman et al., 2024). The financial practices used in banks need to be both transparent and accountable. Financial organizations worldwide made a substantial advancement when they began to implement the International Financial Reporting Standards (IFRS). Research shows that IFRS acceptance creates better financial report quality because investor faith and regulatory adherence benefit (Yim, 2020). The move to IFRS standards in Bangladesh has faced major hurdles because local accounting conventions have not yet meshed with international standards as reported by Muhammad & Lode (2020).

Earnings management practices for accounting standards strongly depend on the regulations implemented in the specific area. Regulations that enforce strict rules have proven to prevent aggressive earnings management techniques because they improve financial reporting accuracy (Sari, 2023).

H1: There is a significant positive relationship between Regulatory Framework and Accounting Practices in the Banking Industry of Bangladesh.

## **2.2 Sustainable Accountability and Accounting Practices**

The research linking sustainable accountability with banking accounting practices in Bangladesh stands as a vital field because corporations focus more on CSR and sustainability. This systematized assessment of current research explores how sustainable accountability impacts bank accounting practices specifically for the Bangladesh banking sector through analysis of sector-specific obstacles and potential opportunities.

Throughout the banking sector banks must show their obligation to report financial achievements combined with social and environmental outcomes. The banking industry of Bangladesh has started to adopt this concept by understanding CSR activities' essential role in their operational framework. Banking organizations in Bangladesh show active participation in CSR activities through their annual disclosures that cover education, health and environmental sustainability fields Umar (2022). Compensation indirectly affects productivity through organizational commitment. When employees feel well-compensated, they are more likely to develop emotional attachment to the organization, which drives higher productivity (Ullah et al., 2024). Accounting practices require the integration of sustainable accountability measures because this enables stakeholders to increase their trust and transparency. The research evidence indicates that banks which successfully report their corporate social responsibility activities gain better reputation along with customer trust which generates financial benefits (Siddiqui et al., 2021). Corporate governance frameworks through their mechanisms define the direction of sustainable accountability practices which operate in the banking sector. The quality of CSR disclosures improves and financial performance enhances when corporate governance frameworks maintain strong frameworks (Hossain et al, 2022).

Research on financial performance needs to examine thoroughly the effects of sustainable accountability. Research in the banking sector of Bangladesh shows that CSR activities create positive financial results (Mahmud, 2022).

H2: There is a significant positive relationship between Sustainable Accountability and Accounting Practices in the Banking Industry of Bangladesh.

## **2.3 Regulatory Framework and Internal Auditing**

Research focused on the ties between regulatory frameworks and banking industry internal auditing practices in Bangladesh has become increasingly important during recent times. This review of academic literature unifies research to determine the impact of regulatory systems on banking internal audits while evaluating Bangladesh-specific conditions.

The banking industry of Bangladesh operates under regulatory framework established by the Bangladesh Bank serving as its central regulatory body and bank. Different banking standards and guidelines found within the framework produce significant consequences for internal auditing methods. A strong regulatory framework stands as an essential element in making internal audits effective because it establishes both the standards and guidelines which auditors need to adhere to Pratama (2023). International auditing standards which receive regulatory oversight create a synergy to enhance financial reporting and internal control quality in banks (Alam et al., 2020). The governance system of banks alongside their risk management becomes stronger through internal auditing processes. Organizations need effective internal audits to track down control weaknesses and verify all regulatory limits of operation. Research shows that the unbiased nature of internal auditors stands essential in making internal auditing practices successful (Athari&Bahreini, 2021). The internal audit performance in

Bangladesh faces implementation barriers because of limited resources as well as the absence of proper training and deficient management support (Lamichhane, 2023).

Internal auditing experiences added complexity due to Shariah governance requirements which exist in Islamic banks. Bangladeshi Islamic banks must follow standard banking laws of the country as well as Shariah principles for compliance. A complete Shariah governance framework deficiency appears to limit internal audit effectiveness in Islamic banking institutions according to Mateev& Nasr (2023).

H3: There is a significant positive relationship between Regulatory Framework and Internal Auditing in the Banking Industry of Bangladesh.

#### **2.4 Sustainable Accountability and Internal Auditing**

Researchers study the essential connection between sustainable accountability systems and internal auditing practices in Bangladesh banking institutions to match existing transparency standards and ethical operations and CSR requirements. The review combines research findings to explain how sustainable accountability affects internal audit practices inside Bangladesh's banking sector while exploring its special demands and opportunities.

Banks under sustainable accountability need to disclose their financial performance with additional reporting of social and environmental impacts. The banking industry in Bangladesh has widely adopted this concept because they recognize that CSR initiatives support their operational structures. Internal auditing produces effective results which boost sustainable accountability because it enforces compliance with ethical requirements in addition to regulatory standards according to Zobi (2023). The verification of sustainability reports depends on internal audits which monitor bank responsibility in social and environmental matters (Puad et al., 2020).

Stakeholders trust internal auditing functions more when internal auditing incorporates sustainable accountability processes into its procedures. Bank entities which invest both time and resources into CSR initiatives and sustainability reporting obtain enhanced reputation results alongside customer loyalty that drives their sustained achievement (Citra, 2023). The banking sector within Bangladesh uses internal auditing processes to evaluate their CSR initiative effectiveness as well as to verify compliance with applicable regulations (Polizzi&Scannella, 2022).

H4: There is a significant positive relationship between Sustainable Accountability and Internal Auditing in the Banking Industry of Bangladesh.

#### **2.5 Internal Auditing and Accounting Practices**

The connection between sustainable accountability and internal auditing practice in Bangladesh's banking industry remains a rising field of academic interest due to intensifying CSR and sustainability awareness. This review of available research introduces a study which examines the impact of sustainable accountability on banking sector internal auditing practices while studying Bangladeshi sector-specific barriers and potential opportunities.

The requirement for banks entails reporting financial numbers alongside their effect on both society and the environment represents sustainable accountability. Bangladesh banking institutions have adopted this concept because they understand CSR initiatives play a vital role in their operational structure. The research shows that banks must accomplish sustainable accountability through effective internal auditing since this process verifies both regulatory compliance and ethical standards Roy (2022). The verification process for sustainability reports has been established through internal audits because they help banks maintain social and environmental accountability (Das, 2021).



Internal auditing practices require sustainable accountability integration as this ensures stakeholders can rely on open financial statements. Banks that dedicate resources to sustainability reporting along with carrying out CSR activities build better reputations and retain loyal customers leading to continued business success (Khairunnessa et al., 2021). The banking sector in Bangladesh expresses its sustainable accountability through internal auditing which evaluates CSR effectiveness as well as confirms regulatory compliance (Zheng et al., 2021).

H5: There is a significant positive relationship between Internal Auditing and Accounting Practices in the Banking Industry of Bangladesh.

## **2.6 Mediating Role of Internal Auditing in between Regulatory Framework and Accounting Practices**

Internal audit functions in Bangladesh act as the key factor that connects banking industry regulatory frameworks with accounting practices. The systematic review evaluates past research to understand how internal auditing facilitates the connection between regulatory guidelines and accounting standards particularly in Bangladesh's banking industry.

The banking sector in Bangladesh follows financial reporting and compliance standards that Bangladesh Bank develops as the regulatory authority. Such frameworks consist of operational, reporting and risk management requirements which banks must follow. Research shows internal audits depend on a strong regulatory setting since they support banks to follow both standards and regulations according to Pratama (2023). The integration of International Standards on Auditing (ISAs) under this regulatory system produces higher audit quality which leads to more reliable financial reporting results (Alzeban, 2020).

The correct functioning of internal auditing provides essential protection of regulatory frameworks. Independent assessment ensures financial institutions follow their required rules and standards as maintaining stakeholder trust requires this independent assurance (Tawfik, 2023). The internal audit team in Bangladesh provides vital assessment of internal controls and risk management processes that constitute critical elements of regulatory compliance according to Dharmawati (2024). Internal audit efficiency generates better accounting practices because it verifies both financial report accuracy and regulatory compliance.

The relationship between regulatory guidelines and internal auditing undergo additional effects from the governance systems that exist within banks. Modern governance systems that use independent audit committees help improve the operational effectiveness of internal audits according to Bananuka and Nkundabanyanga (2022). The governance frameworks of banks in Bangladesh act as fundamental elements for internal audits since they define both independence and authority levels for auditors (Thottoli, 2021).

H6: Internal auditing acts as a mediator in the relationship between Regulatory Framework and Accounting Practices in the Banking Industry of Bangladesh.

## **2.7 Mediating Role of Internal Auditing in between Sustainable Accountability and Accounting Practices**

Internal auditing functions as the main factor which links responsible accountability together with accounting practices present in Bangladesh's banking sector. This review integrates already published studies to examine how internal auditing serves as a medium linking sustainable accountability to accounting approaches inside Bangladesh's banking landscape.

Financial reporting requirements in sustainable accountability require banks to disclose their business res

ults as well as their social and environmental performance. The banking industry in Bangladesh has accepted corporate social responsibility (CSR) initiatives through operational frameworks making this concept popular in the country. Studies demonstrate that sustainable accountability benefits from effective internal auditing because this practice protects financial institutions from failing to comply with legal standards and ethical principles (Sabauri 2024). The accuracy of sustainability reports gets verified through internal audits which act as a mechanism to promote bank accountability in social and environmental responsibilities.

Basics of sustainable accountability must integrate into internal auditing systems because this collaboration helps stakeholders build trust and more transparency. Research findings support the conclusion that banks which dedicate efforts to sustainability reporting along with CSR function better in terms of reputation and customer loyalty thus achieving greater long-term success (Ahmed, 2023). Sustainable accountability in the banking sector of Bangladesh appears through internal auditing which both evaluates CSR initiatives' effectiveness and checks compliance with regulations (Fonseca et al., 2020).

H7: Internal auditing acts as a mediator in the relationship between Sustainable Accountability and Accounting Practices in the Banking Industry of Bangladesh.

## **2.8 Research Gap**

The research on sustained accounting practices and regulatory frameworks in Bangladesh's banking industry is serious because it lacks comprehensive studies about internal auditing's mediation effects. Current academic research investigates the general aspects of sustainability practices and regulatory compliance within banking yet fails to conduct quantitative research about how these frameworks impact sustainable accounting practice in Bangladesh. The research by Khan et al. has examined sustainability report quality among Bangladeshi banks but fails to analyze how internal auditing serves as a mediating element to boost such practices Khan et al. (2020). Internal audit quality appears to have a positive impact on financial performance based on certain research outcomes but additional research needs to evaluate these findings specifically for sustainable accountability within Bangladesh's banking industry (Zobi, 2023). The quick digital shift in banking leads to a need for evaluating regulatory structures and internal audit routines to guarantee their effectiveness for sustainable accounting procedures (Samosir, 2024). Research explores how green banking improves operational efficiency but fails to discuss the obstacles and possibilities faced by Bangladeshi banks while adopting these practices under current regulations (Siddik 2023). Baldissera outlines a comprehensive review of sustainability reporting which charts historical development in banks but fails to demonstrate either specific Bangladeshi bank regulatory hurdles or viable methods to ensure compliance and accountability (Baldissera, 2023). The investigation of dynamic systems requires extensive academic inquiry to understand how internal auditing affects the connection between regulatory guidelines and sustainable accountability practices in Bangladeshi banking operations.

## **3.0 Problem Statement**

The problem statement regarding the impact of regulatory frameworks and sustainable accountability on accounting practices in the banking industry of Bangladesh, with a specific focus on the mediating role of internal auditing, is critical yet underexplored. Despite the increasing emphasis on sustainability and regulatory compliance in the banking sector, there remains a significant gap in understanding how these regulatory frameworks directly influence sustainable accounting practices within the unique context of

Bangladesh. For instance, the researcher highlights the importance of ESG disclosures in enhancing transparency and accountability among banks, noting that regulatory oversight may incentivize banks to disclose transparent ESG information Sari (2023). However, the specific mechanisms through which internal auditing can mediate these relationships are not adequately addressed. Additionally, Siddik's research on sustainable banking practices suggests that while these practices can enhance overall sustainability performance, the role of internal auditing in ensuring compliance and accountability within these frameworks has not been sufficiently examined (Siddik, 2023).

#### 4.0 Research Question

The research questions of the study are as follows:

- a) How does the regulatory framework influence accounting practices in the banking industry of Bangladesh?
- b) What is the role of sustainable accountability in shaping accounting practices within the banking industry?
- c) To what extent does internal auditing mediate the relationship between the regulatory framework and accounting practices in the banking sector?
- d) How does internal auditing influence the link between sustainable accountability and accounting practices in the banking industry?

#### 5.0 Objectives of the Study

The objectives for the study are as follows:

##### Main Objective

The primary objective of this study is to examine the impact of the regulatory framework and sustainable accountability on accounting practices in the banking industry of Bangladesh, with a particular focus on the mediating role of internal auditing.

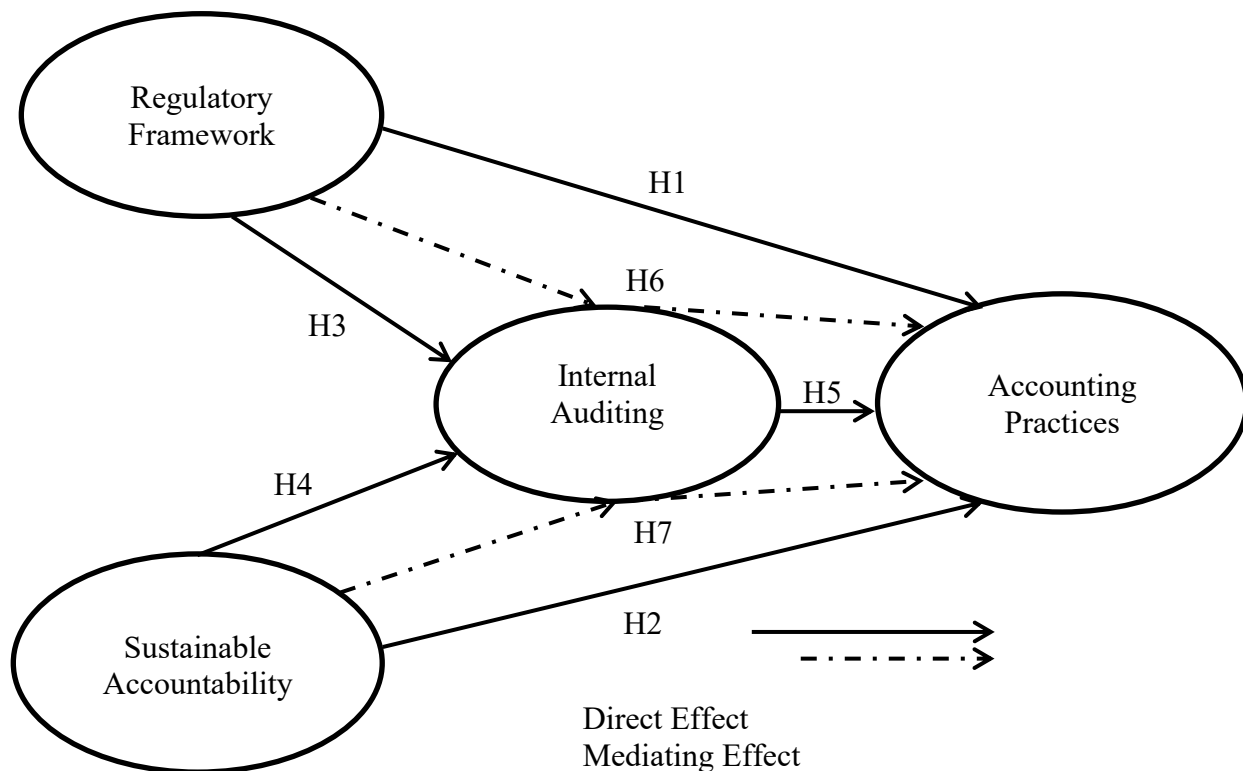
**Specific Objectives:** The specific objectives of this study are as follows:

- a) To analyze the influence of the regulatory framework on accounting practices in the banking industry of Bangladesh.
- b) To examine the role of sustainable accountability in shaping accounting practices within the banking sector.
- c) To investigate the mediating role of internal auditing in the relationship between the regulatory framework and accounting practices.
- d) To assess how internal auditing influences the link between sustainable accountability and accounting practices in the banking industry.

#### 6.0 Conceptual Framework

The conceptual framework for this study illustrates the relationships among key variables: Regulatory Framework (RF), Sustainable Accountability (SA), Internal Auditing (IA), and Accounting Practices (AP) within the context of the banking industry in Bangladesh.





**Figure 1: Conceptual Framework**

## 7.0 Research Methodology

### 7.1 Research Approach

A research approach selection requires immediate attention because it defines the entire approach to tackling research questions through collection techniques and analytical methods (Creswell & Creswell, 2017). Our study uses quantitative research as the selected method for data collection and analysis. Quantitative research requires a structured method that analyzes numerical data for hypothesis testing and research question solution (Creswell & Creswell, 2017). Most studies employ quantitative research methods using structured surveys to collect data from employees (Islam, 2023).

### 7.2 Research Population

The research population in methodology encompasses all elements the researcher wants to understand through scientific examination or conclusion derivation. The target group of individuals serves as the main target for sample selection to gather and analyze research data. The research population consists of all subjects that fulfill the established criteria defined by Cooper and Schindler (2014) for inclusion in the study.

### 7.3 Sampling Technique

Research sampling technique establishes the process for choosing specific participants from the research population to gather data for examination. An appropriate sampling technique selection plays a vital role because it maintains both representativeness and reliability of research results (Creswell & Creswell, 2017). Pursuit sampling stands as the basis of our methodology since it enables researchers to choose individuals or cases that align with research objectives as indicated by Patton (2002). We selected

purposive sampling because the participants needed to possess thorough understanding about the subject content (Palinkas et al., 2015).

## 7.4 Sample Size

Research design heavily depends on selecting the right sample size because this decision affects both statistical power and the quality of meaningful conclusions (Creswell & Creswell, 2017). This research utilized 400 respondents as sample participants to maintain both data collection feasibility and statistical accuracy according to Dillman et al. (2014). The study adopted 400 participants to attain both a 95% confidence level and 5% margin of error in achieving its research objectives (Krejcie & Morgan, 1970).

## 7.5 Data Collection

This research requires an essential data collection phase where information acquisition from chosen samples serves to understand the research aims (Saunders et al. 2018). A survey questionnaire used close-ended questions which clients rated using a Likert-type scale to gather demographic data and other essential variables (Dillman et al., 2014).

- a) **Primary Data:** Primary data collection occurred by simultaneously deploying surveys and interviews to obtain information from educated female participants (Creswell & Creswell, 2017). The research objectives drove the acquisition of primary data which delivered purpose-fit information while maintaining accuracy and relevance according to Bryman (2016).
- b) **Secondary Data:** Secondary data from official reports and academic studies were used to enhance the main findings through public documentation sources (Dillman et al., 2014). The use of secondary data meant both cost reduction for data collection while supporting historical research and comparative studies (Johnson & Christensen, 2019).

## 8.0 Data Analysis and Result

### 8.1 Assessment of Measurement Model

A comprehensive analysis of the measurement model enabled researchers to validate measurement scales for vital study variables. The assessment of measurement model serves as a vital procedure within structural equation modeling (SEM) or other latent variable analyses for verifying the measurement instruments' reliability and validity (Hair et al., 2019; Gefen et al., 2000). Research analysis reveals that younger, better-educated employees are more inclined to support long-term human resource sustainability, including eco-friendly activities, continuous learning, and social responsibility programs (Islam, 2013).

**Table 01: Analysis of Indicators' and Constructs' Reliability and Convergent Validity**

Constructs	Items	Loading	Cronbach's Alpha	CR	AVE
Accounting Practices (AP)	AP1	0.885	0.615	0.837	0.720
	AP2	0.810			
Internal Auditing (IA)	IA1	0.808	0.843	0.888	0.615
	IA2	0.756			
	IA3	0.724			
	IA4	0.848			
	IA5	0.779			
Regulatory Framework (RF)	RF1	0.929	0.819	0.896	0.745

	RF2	0.711			
	RF5	0.930			
Sustainable Accountability (SA)	SA12	0.982	0.963	0.982	0.964
	SA14	0.982			

**Source:** Output from primary data using SmartPLS

## 8.1.1 Indicators Reliability

The research evaluated the reliability of measurement indicators to maintain stable and consistent assessments among various construct items (Cronbach, 1951). Factor loadings greater than 0.70 generally serve as essential signs of substantial connections between items and factors based on Stevens (1996). The study examining the Impact of Regulatory Framework and Sustainable Accountability on Accounting Practices in the Banking Industry of Bangladesh: The Mediating Role of Internal Auditing shows high indicators reliability according to Table 01. The reliability test results show good consistency for Accounting Practices (AP) through Cronbach's Alpha (0.615) and Composite Reliability (CR = 0.837) and Average Variance Extracted (0.720) and item loadings of 0.885 and 0.810. The reliability of Internal Auditing (with Cronbach's Alpha 0.843) is good along with CR 0.888 and AVE 0.615 due to item loadings ranging between 0.724 to 0.848. The Regulatory Framework (RF) construct demonstrates remarkable reliability because it has Cronbach's Alpha (0.819) along with CR (0.896) and AVE (0.745). The item loadings of this construct range between 0.711 and 0.930. Sustainable Accountability (SA) demonstrates superior reliability through Cronbach's Alpha (0.963) and CR (0.982) along with AVE (0.964) and it has strong factor loadings of 0.982 for both items. These reliability indicators validate the validity and robustness of the constructs which makes them appropriate for studying how the regulatory framework and sustainable accountability affect the banking industry's accounting practices in Bangladesh.

## 8.1.2 Constructs' Reliability

We checked the reliability of latent constructs from measurement scales to guarantee internal consistency and measurement stability across multiple indicators (Hair et al., 2019). Some researchers consider construct reliability as a core concept in measurement validity and reliability because it ensures stable measurement scales. Researches commonly use Cronbach's alpha coefficient to measure the item consistency levels within constructs (Cronbach, 1951). The reliability measurement of a construct according to Nunnally (1978) and Hair et al (2010) requires Cronbach's alpha exceeding 0.70.

**Table 02: Analysis of Constructs' Reliability**

Constructs	Cronbach's Alpha	Composite Reliability
Accounting Practices (AP)	0.615	0.837
Internal Auditing (IA)	0.843	0.888
Regulatory Framework (RF)	0.819	0.896
Sustainable Accountability (SA)	0.963	0.982

**Source:** Output from primary data using SmartPLS

The reliability level of Accounting Practices measures as moderate according to Cronbach's Alpha at 0.615 and Composite Reliability at 0.837 indicating satisfactory consistency in measuring accounting

practices. The Internal Auditing construct exhibits robust measurement reliability since it produces Cronbach's Alpha of 0.843 and Composite Reliability of 0.888. Strong reliability values exist in Regulatory Framework (RF) data as it demonstrates Cronbach's Alpha at 0.819 and Composite Reliability (CR) at 0.896 which assures effective measurement of regulatory influences. SA demonstrates outstanding construct consistency that is backed by Cronbach's Alpha of 0.963 as well as CR of 0.982 to show its superior validity and reliability features. The reliable measurements constructed for the study successfully evaluate how regulatory framework and sustainable accountability influence accounting practices through internal auditing in the banking industry of Bangladesh.

### 8.1.3 Convergent Validity

The evaluation of convergent validity determines how properly designed measurement scales that measure the same construct yield comparable results according to Hair et al. (2019). A validation of convergent validity took place to confirm the indicators in each measurement scale merge properly thus showing reliable constructs assessment performance. A study serves as an example to explain the examination of convergent validity in a self-esteem measurement scale. The items that measure self-esteem must demonstrate strong correlations between themselves during such a study. Researchers set an acceptable benchmark of correlation coefficients exceeding 0.70 to validate constructs (Nunnally, 1978).

**Table 03: Analysis of Convergent Validity**

Constructs	Cronbach's Alpha	Composite Reliability	AVE
Accounting Practices (AP)	0.615	0.837	0.720
Internal Auditing (IA)	0.843	0.888	0.615
Regulatory Framework (RF)	0.819	0.896	0.745
Sustainable Accountability (SA)	0.963	0.982	0.964

**Source:** Output from primary data using SmartPLS

The convergent validity assessment of the study which examines Regulatory Framework and Sustainable Accountability on Accounting Practices in the Banking Industry of Bangladesh: The Mediating Role of Internal Auditing shows that the measurement tools successfully measure theoretical constructs. The assessment of convergent validity uses Average Variance Extracted (AVE) to determine that constructs measure sufficient indicator variance when AVE exceeds 0.50. All constructs achieve this standard and Accounting Practices (AP) demonstrates an AVE of 0.720 followed by Internal Auditing (IA) at 0.615 and Regulatory Framework (RF) at 0.745 then Sustainable Accountability (SA) at 0.964. The constructs show strong internal consistency based on their Composite Reliability values which range between 0.837 and 0.982. The measurement model developed in this study maintains its validity for studying how regulatory framework combined with sustainable accountability affects banking industry accounting practices through internal auditing activities in Bangladesh.

### 8.1.4 Discriminant Validity

The evaluation of discriminant validity stems from Hair et al. (2019) and measures how different measurement scales designed for separate constructs keep their association levels low (Hair et al., 2019). The assessment focused on discriminant validity because our research aimed to confirm that our measurement scales properly identified their specific concepts. Analysis was conducted to check

whether construct correlations fell beneath the square root of their average variance extracted values (Fornell&Larcker, 1981).

**Table 04: Discrimination Validity (HTMT)**

Constructs	AP	IA	RF	SA
Accounting Practices (AP)				
Internal Auditing (IA)	1.282			
Regulatory Framework (RF)	1.346	1.115		
Sustainable Accountability (SA)	1.086	0.899	1.024	

**Source:** Output from primary data using SmartPLS

Several HTMT values from the discriminant validity analysis of the study on the Impact of Regulatory Framework and Sustainable Accountability on Accounting Practices in the Banking Industry of Bangladesh: The Mediating Role of Internal Auditing surpass the accepted threshold of 0.85 or 0.90. The discriminant validity analysis shows two problematic constructs based on their HTMT values for Accounting Practices (AP) with Internal Auditing (IA) (1.282) and Regulatory Framework (RF) (1.346) because both surpass accepted thresholds. The measurement comparison of internal auditing with sustainable accountability (SA) produces an HTMT value of 1.024 which surpasses recommended thresholds. The HTMT values for IA and SA and IA and RF remain within acceptable boundaries with 0.899 and 1.115 respectively. The findings indicate insufficient distinction between the research constructs which might lead to issues regarding discriminant validity. Research improvement for model validity includes reconstruing measurement items and cutting redundant indicators and executing additional confirmatory factor analysis (CFA) to enhance construct separation.

**Table 05: Discrimination Validity (Fornell&Larcker Criterion)**

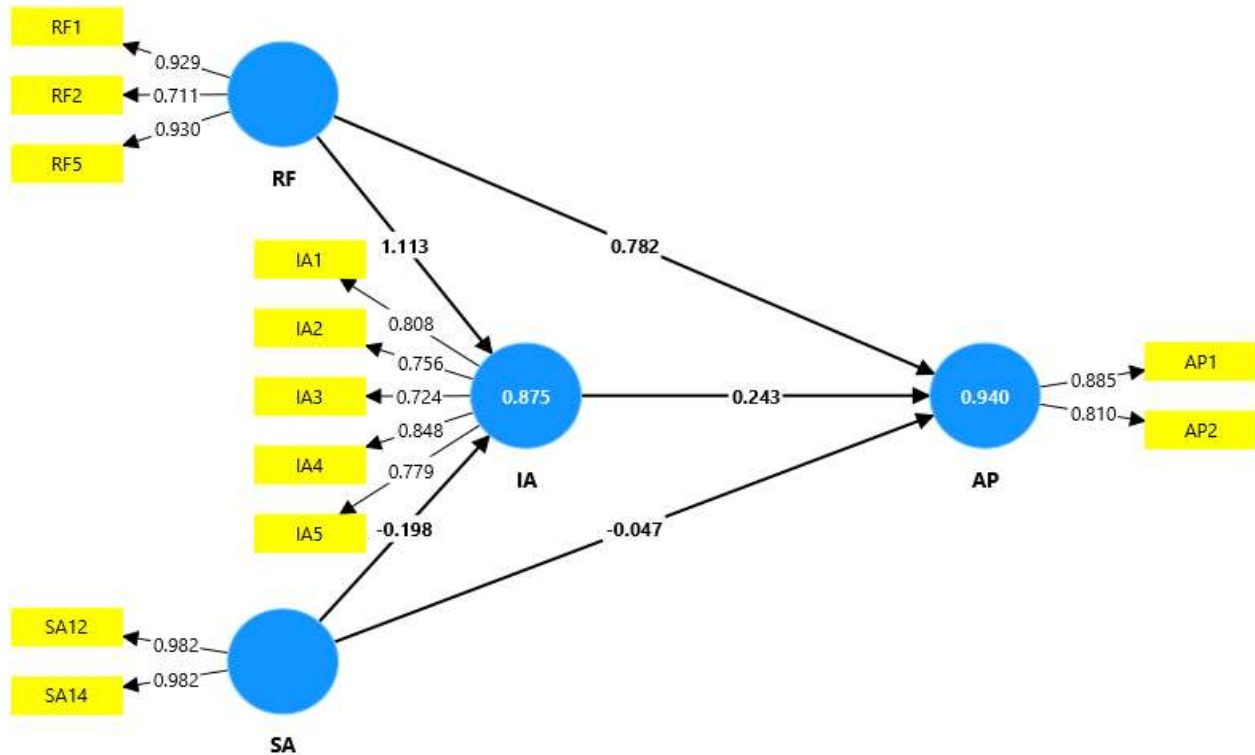
Constructs	AP	IA	RF	SA
Accounting Practices (AP)	0.848			
Internal Auditing (IA)	0.933	0.784		
Regulatory Framework (RF)	0.965	0.932	0.863	
Sustainable Accountability (SA)	0.869	0.822	0.916	0.982

**Source:** Output from primary data using SmartPLS

The discriminant validity assessment of the study on the Impact of Regulatory Framework and Sustainable Accountability on Accounting Practices in the Banking Industry of Bangladesh: The Mediating Role of Internal Auditing shows potential construct differentiation problems when applying the Fornell&Larcker criterion. This assessment method requires a construct's square root of Average Variance Extracted measure to surpass all other construct correlations. The square root of AVE (0.982) for Sustainable Accountability exceeds its correlations with other constructs which signifies that it meets the requirement for discriminant validity versus other constructs. Accounting Practices (AP) shows lower distinctiveness based on its square root of AVE value at 0.848 which falls beneath the values from Regulatory Framework (0.965) and Internal Auditing (0.933). Research findings indicate potential discriminant validity problems since the studied constructs fail to demonstrate complete distinctness.



Researchers can boost validity by both improving existing measurement items and reassessing indicator loading factors while adding confirmatory factor analysis (CFA) as an additional validation approach.



**Figure 2: Measurement Model**

## 8.1.5 Model Fit

The procedure of model fit assessment stands as a critical element when using structural equation modeling (SEM) to understand the relationship between theoretical models and observed data (Hair et al., 2019). We utilized multiple fit indices to determine the model validity for our SEM models in this research. SRMR determines the average size of discrepancies that exist between actual correlations and their model equivalents. The model fit rate becomes acceptable when it falls beneath 0.08 as per Hu & Bentler (1999).

**Table 06: Model Fit**

	Saturated Model	Estimated Model
SRMR	0.161	0.161
d_ ULS	2.031	2.031
d_ G	3.059	3.059
Chi-square	4256.664	4256.664
NFI	0.503	0.503

**Source:** Output from primary data using SmartPLS

Analysis of model fit for the Bangladesh banking industry study reveals potential issues that might affect overall stability of the measurement. The observed model shows poor correspondence to the predicted results as validated by the Standardized Root Mean Square Residual (SRMR) value of 0.161 which

surpasses the benchmark threshold of 0.08. The model deviates from its optimal structure according to both  $d\_ULS = 2.031$  squared Euclidean distance and  $d\_G = 3.059$  geodesic distance measurements. While the Chi-square value measures 4256.664 it stands at a high level possibly due to model misspecification though it becomes inflated as sample size increases. The Normed Fit Index evaluation yields an unacceptable value of 0.503 which falls well below the recommended standard of 0.90 thus confirming a poor model fit. The model requires modification by improving indicator specifications or reconstructing construct relationships or utilizing model re-specification approaches to enhance both performance and validity.

## 8.2 Assessment of Structural Model

An examination of the structural model allows scientists to both verify theoretical propositions and study associations among hidden variables (Kline, 2016). Path coefficients receive their significant values from p-values that match theoretical hypothesis expectations according to Hair et al. (2019). The presented structural model demonstrates four main insights including Path Coefficient Estimation and Hypothesis Testing as well as Model Fit Evaluation alongside Mediation and Moderation Effects and Effect Size and Direction and Robustness Analysis.

### 8.2.1 Coefficient of Determination ( $R^2$ )

The statistical measure known as  $R^2$  determines the regression model fit quality according to Hair et al. (2019).  $R^2$  served as the quantitative measure that allowed us to determine the amount of dependent variable variance which independent variables explain in our conducted regression analysis. The independent variables of a regression model affect changes in the dependent variable through  $R^2$  values that span from 0 to 1. The dependent variable's variance explanation by independent variables becomes greater as  $R^2$  value rises. A low R-square value demonstrates that the model failed to explain an extensive portion of the variance and leaves unexplained residual variance in the data.

**Table 07: Result of  $R^2$**

Constructs	R-square	R-square adjusted
Accounting Practices (AP)	0.94	0.94
Internal Auditing (IA)	0.875	0.874

**Source:** Output from primary data using SmartPLS

A high explanatory power emerges from the research model in the study of Impact of Regulatory Framework and Sustainable Accountability on Accounting Practices in the Banking Industry of Bangladesh: The Mediating Role of Internal Auditing. The Accounting Practices (AP)  $R^2$  value reaches 0.94 which reveals that 94% of AP variations depend on the independent factors thus indicating significant predictor influence. The model explains 87.5% of the variation in Internal Auditing (IA) through the determinants demonstrating its firm relationship with these variables. The adjusted  $R^2$  statistics maintain equivalent values which indicates minimal loss of predictive power due to increased number of predictors within the model. The outcome measures demonstrate strong predictive abilities of regulatory framework and sustainable accountability because internal auditing acts as a crucial mediator between these frameworks and accounting practices in Bangladesh.

## 8.2.2 Effect Size ( $F^2$ )

The  $F^2$  value indicates what percentage of dependent variable variation results from independent variables in the model. When researchers need to understand the impact of several independent variables on dependent variables  $F^2$  gives highly effective measurement results. The strength of an effect increases when  $F^2$  grows larger yet it weakens when  $F^2$  becomes smaller. The practical importance of observed effects depends significantly on effect size measures which function as important tools for their assessment. The commonly utilized effect size measurement  $F^2$  shows how much of dependent variable variance stems from independent variable influence according to Cohen (1988).

**Table 08: Result of  $F^2$**

Constructs	AP	IA	RF	SA
Accounting Practices (AP)				
Internal Auditing (IA)	0.123			
Regulatory Framework (RF)	0.631	1.59		
Sustainable Accountability (SA)	0.006	0.05		

**Source:** Output from primary data using SmartPLS

This study reveals the impact of each construct through  $F^2$  analysis for the Impact of Regulatory Framework and Sustainable Accountability on Accounting Practices in the Banking Industry of Bangladesh: The Mediating Role of Internal Auditing. The analysis demonstrates that Regulatory Framework (RF) creates a substantial impact on Internal Auditing (IA) through its large  $F^2$  value of 1.59. RF demonstrates a moderate effect on Accounting Practices (AP) because its  $F^2$  value stands at 0.631. Internal Auditing functions as a weak intermediary between AP and other variables yet shows a small relationship through an  $F^2$  value of 0.123. SA demonstrates low impact across both IA (0.05) thus AP (0.006) suggesting its relationship remains weak relative to the RF. The regulatory framework appears to have substantially greater influence over both accounting practices and internal auditing than sustainable accountability does in a direct capacity. Additional study should explore how IA passes on its indirect impact of sustainable accountability as it affects the banking industry of Bangladesh.

## 8.2.3 Assessment of Path Coefficient

Within structural equation modeling (SEM) assessments of path coefficients form the basis for comprehending relationships that exist between unobserved constructs and the measured variables. Structural equation modeling (SEM) and regression analysis heavily depend on the path coefficient assessment process. The model depicts the magnitude and orientation of associations that exist between variables through path coefficients. The authors applied strict analysis techniques to evaluate path coefficients which revealed the levels of statistical importance along with relationship strength (Hair et al., 2019). Statistical significance of a path coefficient results from its corresponding p-value. Statistics show that when p-value levels fall under threshold 0.05 the researched relationship stands less likely as the result of random chance. The statistical significance criterion serves researchers to validate the usefulness of path coefficients in indicating meaningful relationships (Kline, 2016; Hair et al., 2010).

**Table 09: Outcome of Structure Model (Test of Hypothesis)**

Hypothesis	Path	$\beta$	Standard deviation (STDEV)	T statistics ( O/STDEV )	P values	Decision
H1	RF -> AP	0.825	0.196	3.981	0.000	Supported
H2	SA -> AP	-0.086	0.169	0.278	0.781	Not Supported
H3	RF -> IA	1.121	0.08	13.854	0.000	Supported
H4	SA -> IA	-0.205	0.086	2.317	0.021	Supported
H5	IA -> AP	0.236	0.068	3.594	0.000	Supported

**Source:** Output from primary data using SmartPLS

Hypothesis testing for the study about Regulatory Framework and Sustainable Accountability on Accounting Practices in the Banking Industry of Bangladesh: The Mediating Role of Internal Auditing demonstrated meaningful relationships between research constructs. Research findings demonstrate that regulatory framework (RF) proves to be a significant and positive factor which impacts accounting practices (AP) positively ( $\beta = 0.825$ ,  $p = 0.000$ ) thereby validating H1. The research results show sustainable accountability (SA) does not impact AP since the relationship coefficient is -0.086 with a p value of 0.781 which rejects H2. The findings demonstrate RF strongly and significantly increases the practice of internal auditing (IA) until a point of  $\beta = 1.121$  with  $p = 0.000$  which supports H3. The research established H4 by showing SA produces a significant negative effect on IA ( $\beta = -0.205$ ,  $p = 0.021$ ). The analysis proven H5 as IA serves as a mediator between the model variables through its direct link to AP ( $\beta = 0.236$ ,  $p = 0.000$ ). This research demonstrates that RF determines both AP and IA through strong effects but SA has minimal direct impact on AP though it creates substantial effects on IA.

## 8.2.4 Mediating Effect

This research aimed to confirm if any variable acted as a mediator between independent and dependent variables. A mediating effect describes the essential mechanism through which an independent variable alters a dependent variable by using intermediate variables known as mediators (Baron & Kenny, 1986). The established bootstrapping techniques of Preacher & Hayes (2008) allowed us to conduct a mediation analysis for testing this effect.

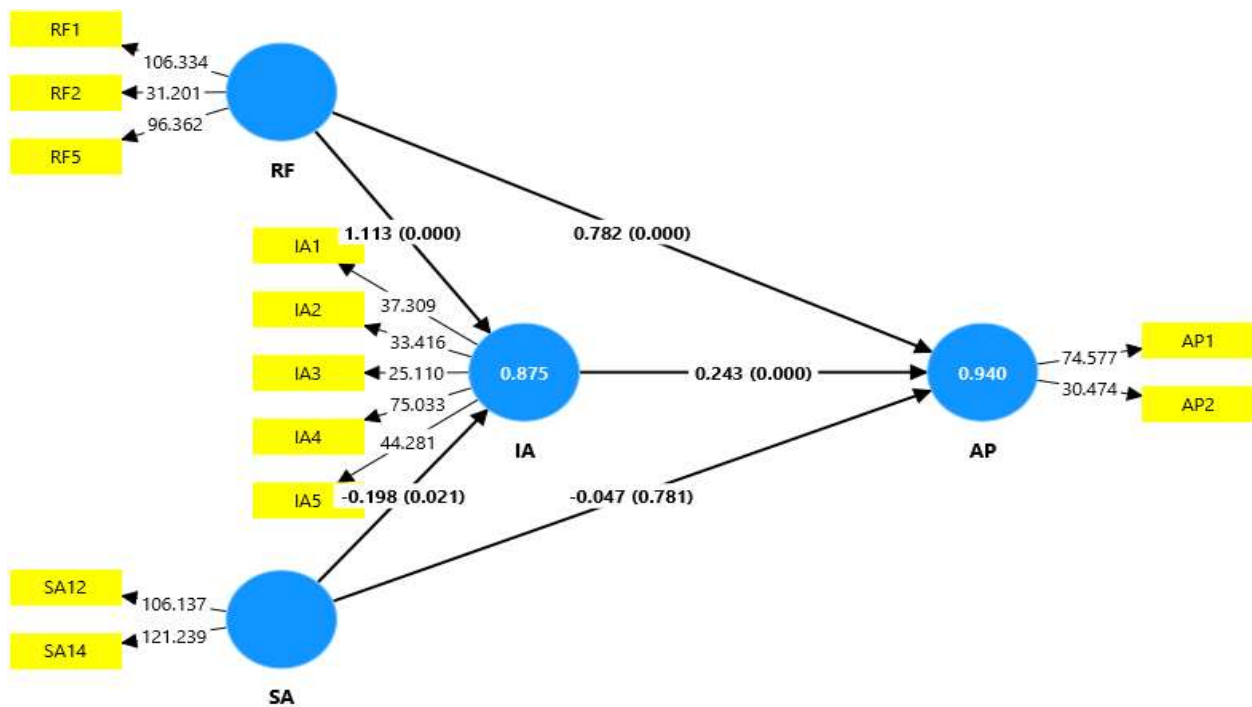
**Table 10: Outcome of Mediation Effect**

Hypothesis	Path	$\beta$	Standard deviation (STDEV)	T statistics ( O/STDEV )	P values	Decision
H6	RF -> IA -> AP	0.262	0.068	3.982	0.000	Supported
H7	SA -> IA -> AP	-.045	0.018	2.617	0.009	Supported

**Source:** Output from primary data using SmartPLS

Internal Auditing serves as a vital connection between Regulatory Framework and Sustainable Accountability and their influence on Accounting Practices in the banking sector of Bangladesh. The

research findings show RF escalates AP through IA ( $\beta = 0.262$ ,  $p = 0.000$ ) thus verifying H6. Additionally, IA mediates the relationship between SA and AP with statistical significance ( $\beta = -0.045$ ,  $p = 0.009$ ), supporting H7. SA produces an adverse effect on IA but its unfavorable influence on AP is transmitted through this mediating connection. When internal auditing operations experience disruption from SA the system successfully directs accountability systems for accounting outcome improvements. The study results demonstrate how internal auditing performs an essential role in turning both RF and SA into better accounting performance results. Bangladesh needs to boost its internal auditing systems for banks to strengthen both financial compliance and transparency within its banking sector.



**Figure 3: Assessment of Structural Model**

## 9.0 Summary Findings of the Study

The summary findings of the study are as follows:

1. Research results demonstrate that the regulatory framework ( $\beta = 0.825$ ;  $p = 0.000$ ) has a strong positive relationship with accounting practices (AP) within the banking industry of Bangladesh.
2. The research indicates sustainable accountability (SA) has no effect on accounting practices (AP) ( $\beta = -0.086$ ,  $p = 0.781$ ), thus H2 is rejected. Results demonstrate that Sustainable Accountability factors alone lack the ability to boost Accounting Practices performance without coexisting conditions that would influence or boost effectiveness.
3. RF demonstrates a substantially important and robust positive effect on internal auditing ( $\beta = 1.121$ ) among the studied variables ( $p = 0.000$ ), thus confirming H3. The study suggests that severe regulatory requirements enable better internal audit practice as a means to enhance financial governance oversight.
4. The negative statistical link between Sustainable Accountability (SA) and Internal Auditing (IA) shows that enhanced sustainability responsibility reduces IA operations while maintaining statistical significance ( $\beta = -0.205$ ,  $p = 0.021$ ).



5. Internal auditing serves as a mediating force between Regulatory Framework and Accounting Principles since they exhibit a positive statistical relationship ( $\beta = 0.236$ ,  $p = 0.000$ ). Internal auditing produces transparent plus accurate results that also maintain regulatory compliance with accounting practices.
6. RF exerts its influence on AP indirectly through its relationship with IA because  $\beta$  equals 0.262 and  $p$  amounts to 0.000 which supports hypothesis six. The research demonstrates that banking sector AP gets improved through regulatory measures by functioning as a transmission mechanism through IA.
7. A significant mediation relationship exists between Institutional Autonomy and SA Performance with a  $\beta$  value of -0.045 at a  $p$  value of 0.009 which validates H7. Despite the negative sign this outcome indicates that Implementing Accounting standards assists in reducing the challenges from Selective adjustment thereby keeping its influential relation to Audited Profit intact.

These findings emphasize the critical role of the regulatory framework in strengthening both internal auditing and accounting practices, while also highlighting the complex relationship between sustainable accountability and financial oversight mechanisms in the banking industry of Bangladesh.

## 10.0 Research Contributions

The contributions of the research are as follows:

### A. Theoretical Contributions

- This study enriches the existing literature by demonstrating the significant impact of the regulatory framework (RF) on accounting practices (AP) in the banking sector of Bangladesh. It highlights the necessity of strong regulatory mechanisms in ensuring compliance and transparency in financial reporting.
- establishing internal auditing (IA) as a significant mediator between RF, SA, and AP, the study provides new insights into IA's role in financial governance. It contributes to auditing and accounting literature by emphasizing IA as a bridge between regulatory compliance and effective accounting practices.
- The study adds to the growing body of knowledge on sustainable accountability (SA) by examining its indirect impact on AP through IA. It challenges traditional views by showing that SA may impose constraints on IA while still influencing AP indirectly.
- This research validates the mediating function of IA in the relationship between regulatory frameworks, sustainability practices, and accounting efficiency. It provides empirical evidence supporting IA as a mechanism that ensures compliance, risk management, and financial reporting integrity.

### B. Practical Contributions

- The findings offer valuable insights for regulators, such as the Bangladesh Bank, to strengthen banking regulations, ensuring that financial institutions maintain high accounting standards and robust internal controls.
- Given the significant mediating role of IA, banking institutions should invest in improving audit processes, enhancing auditor independence, and incorporating advanced auditing technologies to strengthen governance and risk management.
- The study highlights the challenges associated with sustainable accountability in banking operations. Financial institutions should align their sustainability strategies with regulatory requirements while ensuring that they do not hinder internal auditing effectiveness.

### 11.0 Future Research Direction

Future research of the study is as follows:

- Future studies can extend the research framework to non-banking financial institutions (NBFIs) in Bangladesh to explore whether the impact of regulatory frameworks and sustainable accountability differs across various financial sectors.
- Conducting a comparative study between Bangladesh and other emerging economies could provide deeper insights into how regulatory frameworks and sustainability practices influence accounting practices across different regulatory environments.
- Future research could integrate corporate governance variables, such as board independence and management transparency, to examine their moderating effects on the relationship between regulatory frameworks, sustainable accountability, and accounting practices.
- Future studies can analyze how different sectors within the banking industry (e.g., private, public, and Islamic banks) implement sustainable accountability and whether it affects internal auditing and accounting practices differently.
- Future research can assess how global financial regulations, such as Basel III and IFRS, shape internal auditing and accounting practices in the banking sector of Bangladesh.
- Further studies could explore whether sustainable accountability positively affects financial performance in the banking sector, examining profitability, risk mitigation, and stakeholder trust.
- Future research can introduce additional mediators or moderators, such as financial literacy, risk management strategies, or institutional quality, to gain a more comprehensive understanding of the relationships among the study variables.

### 12.0 Limitations of the Study

Limitations of the study are as follows:

- This study is limited to the banking industry in Bangladesh, which may restrict the generalizability of the findings to other financial sectors or international banking institutions operating under different regulatory and economic environments.
- The study utilizes a cross-sectional research design, capturing data at a single point in time. This approach limits the ability to analyze dynamic changes in regulatory frameworks, sustainable accountability, and internal auditing over time.
- While internal auditing is examined as a mediating factor, other potential mediators or moderators, such as corporate governance, organizational culture, and financial literacy, were not included in the study, which may provide additional insights into the relationships among the variables.
- The study does not track regulatory changes and their long-term impact on accounting practices. A longitudinal approach could provide a more in-depth understanding of how evolving regulations and sustainability measures shape financial reporting over time.
- Although the study aims to be representative of the banking sector, the sample may not fully capture the diversity of perspectives across different types of banks (e.g., private, public, Islamic banks) or variations in internal auditing practices across institutions.
- While sustainable accountability is analyzed, specific environmental, social, and governance (ESG) indicators that could further define sustainability's impact on accounting practices were not incorporated into the study.

### 13.0 Conclusion

The study explores the impact of the regulatory framework and sustainable accountability on accounting practices in the banking industry of Bangladesh, with internal auditing as a mediating factor. The findings highlight that a strong and well-structured regulatory framework significantly enhances both internal auditing and accounting practices, demonstrating the crucial role of compliance mechanisms in maintaining financial discipline and transparency. The results also reveal that internal auditing serves as a key conduit in strengthening accounting practices by ensuring adherence to regulatory standards and effective financial reporting.

Although sustainable accountability was not found to have a direct impact on accounting practices, it significantly influences internal auditing. This suggests that sustainability-related policies and ethical business practices must be integrated within internal auditing mechanisms to enhance their contribution to financial transparency and regulatory compliance. The mediation analysis further confirms that internal auditing plays an essential role in linking regulatory frameworks and sustainable accountability with accounting practices, reinforcing the necessity of robust internal control mechanisms in the banking sector.

The study provides valuable insights for policymakers, financial regulators, and banking institutions by emphasizing the importance of strengthening the regulatory framework and internal auditing to improve financial governance. Given the growing complexity of financial transactions and regulatory requirements, banks must adopt proactive internal control strategies to mitigate risks and enhance compliance with evolving regulatory standards.

In light of these findings, the study suggests that banking institutions in Bangladesh should prioritize regulatory reforms, invest in internal auditing capacity-building programs, and integrate sustainable accountability initiatives within their financial management frameworks. Additionally, policymakers should ensure that regulatory frameworks remain adaptive and responsive to industry changes, enabling banks to enhance their financial stability and operational efficiency.

Future research can further explore this topic by incorporating a cross-country comparative analysis, longitudinal data, or additional moderating variables such as corporate governance, digital transformation, and financial technology. Such studies can provide deeper insights into the evolving dynamics of financial accountability, regulatory compliance, and sustainability in the banking industry.

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