Impact of Audit Committee Characteristics on Stock Returns: Evidence from Bangladesh

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ABSTRACT

Purpose – The purpose of this paper is to investigate the effect of audit committee characteristics, such as audit committee size, audit committee independence, audit committee female members, and audit committee finance & accounting experts on stock returns.

Design/methodology/approach - In this study, the companies listed on the DSE during the period from 2019 to 2024 are investigated. The ordinary least square has been used to analyze the panel data collected from 68 leading listed companies of DSE covering six years ranging from 2019-2024 and consisting of 408 company-year observations. Linear panel regression method is employed for this purpose. The independent variables of the study are composed of some corporate governance mechanisms including audit committee size, audit committee independence, audit committee gender diversity, audit committee accounting expertise, and institutional ownership.

Findings – The study finds that audit committee size, audit committee independence, the presence of female directors on the audit committee, and the inclusion of finance and accounting experts significantly enhance stock returns. Furthermore, the effects of audit committee size and female representation on stock returns are more pronounced in firms with lower levels of institutional ownership, suggesting that these internal governance mechanisms can substitute for external monitoring. In contrast, the influence of audit committee independence and accounting expertise is stronger in firms with higher institutional ownership, indicating a complementary monitoring role.

Implications – The study suggests the policymakers and regulatory bodies to enhance the number of auditors in the audit committees with their independence, expertness and gender diversity. Moreover, they should be empowered so that they can enhance stock return.

Originality/value – This is one of the most significant types of research that looks at the effects of the board and audit committee characteristics on profitability in an emerging market. Bangladesh and other developing nations may benefit from the study's findings.

Keyword: Audit, Internal Audit Quality, Stock Returns

INTRODUCTION

Recent empirical study has identified a number of corporate characteristics that forecast future stock returns. Audit committee is one of them. Over the past twenty years, audit committees—henceforth referred to as ACs—have emerged as a prevalent corporate governance mechanism on a global scale. Audit committees

(ACs) were almost unknown worldwide in the 1970s (Canadian Institute of Chartered Accountants, 1981). However, in less than 20 years, the number of significant capital markets that require an audit committee for a public company has increased (Vanasco, 1994). One of the key governance structures is the audit committee, whose main goal is to enhance the effectiveness and caliber of internal auditing and financial management (Afza & Nazir, 2014). Both the audit firm characteristics and audit committee factors have an impact on audit quality.

AC size is positively related to FFR risk assessment, while female AC participants and those serving on boards with greater independence are more likely to report engaging in AC activities to assess management integrity. In the wake of major financial disappointments and the 2008 economic crisis, audit committees (ACs) were granted extensive authority to ensure the reliability of financial reporting (Wilbanks, et al., 2017).

Profitable and un-profitable companies have different relationships between corporate disclosure and investors' capacity to predict future changes in earnings. In particular, for unsuccessful companies with high levels of disclosure, stock returns show a much better capacity to forecast changes in profitability (Hussainey, 2009). The audit committee is one of the corporate governance tools that consist of a group of persons selected from members of the board of directors who are responsible for retaining independence of the auditor, increasing the auditing quality and questioning of board of directors (Hamdan, Sarea, & Reyad, 2013). The effectiveness of audit committees in preventing earnings management has been the subject of numerous research (Abbott et al., 2004; Bedard et al., 2004; Lin, et al., 2006; Klein, 2002; Xie et al., 2003; Yang and Krishnan, 2005). It has been shown that the audit committee's size greatly enhances business performance. Tobins' Q is significantly and negatively correlated with the size of the audit committee (Fariha, et al., 2022). The frequency of earnings restatements is negatively correlated with the size of audit committees. (Lin, et al., 2006).

Profitability and independent audit committee members are strongly positively correlated. This is because independent directors are more knowledgeable about the state of the market and business than the executive members of the board (Salehi, et al., 2017). Profitability and independent audit committee members are strongly positively correlated, although directors' concurrent involvement in the audit is not. Audit committee accounting financial expertise is essential for determining the excessive timeliness of losses. The findings provide a better understanding of the connection between audit committee financial expertise and earnings conservatism and highlight the importance of accounting financial experience in improving the quality of financial reporting (Sultana & Zahn, 2013). The audit committee's independence and the presence of members with accounting and auditing expertise moderate the effects of internal audit independence and size on business performance. The author claims that there is no such mediation between internal audit competency and corporate performance. Additionally, audit committee meetings do not lessen the impact of internal audit features on company performance (Alzeban, 2020).

The audit committee's financial and oversight skills have a favorable impact on the company's net profit margin, return on equity, and return on assets (Chaudhry, Roomi, & Aftab, 2020). There is a positive significant relationship between audit committee independence and financial expertise of the audit committee. There is also a positive and significant association between the proportion of outside directors on the board (board independence) and profitability (Anu, et al., 2014). There is a significant positive relationship between audit committee (AC) independent members and profitability while dual membership of directors on audit and nomination committee is significant and negatively related with profitability (Kallamu & Saat, 2015).

An audit committee is simply referred to a constituted body that is giving authority and responsibility to oversee the financial reporting of a firm and report the findings to the top management for decision making. Two audit committee characteristics namely audit committee size and external audit quality has strong and significant positive impact on Return on Assets (ROA) and Tobin’s Q. Another two variables namely audit committee independence and AC activity remains insignificant, which is consistent with mostly previous studies carried in different countries. In short, present study provides an insight to all the regulators, policy makers and stakeholders while adopting certain audit committee characteristics in Pakistan; overall firm’s financial performance can be improved. The audit committee are the most meaningful to users of the financial

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statements and using them as the source of critical audit matters would assist the auditor in determining critical audit matters in the most efficient and effective manner.

There is a negative association between the size of audit committees and the occurrence of earnings restatement. The remaining four audit committee characteristics (Audit committee independence, audit committee financial expertise, audit committee meeting and audit committee stock ownership) don't have a significant impact on the quality of reported earnings (Lin, et al., 2006).

Audit committees (ACs) have grown in popularity and significance as a component of corporate governance globally throughout the last 20 years (Turley & Zaman, 2004). The effectiveness and efficient operation of an audit committee (AC) is a crucial instrument for the success of corporate governance (CG), despite the fact that there are numerous ways to implement and practice it. These days, an AC is regarded as a unique culture for CG and has garnered international attention (Bhasin* & Shaikh, 2012).

Many researches have been done research works on audit committee size: like "Audit committee characteristics and firm performance: a cross-country meta-analysis (Altin, 2024)", The ratio of growth opportunities to firm value, which influences firms' exposures to capital-embodied productivity shocks and risk premia, is connected with firm characteristics (Kogan & Papanikolaou, 2013). The Corporate Governance Effects of Audit Committee by (Turley & Zaman, 2004): Audit Committees and Corporate Governance: It is also clear that most recent research has focused on aspects of audit committees' existence, characteristics, and activity metrics, while little is known about how they operate and how they impact organizational behavior (Turley & Zaman, 2004); "Corporate governance role in financial reporting." by (Rezaee, et al., 2003): The audit committee has oversight responsibility over corporate governance, the financial reporting process, internal control structure, internal audit functions, and external audit activities by Rezaee, et al., 2003: Audit committee composition and the use of an industry specialist audit firm by Chen, et al., 2005.

Audit firm characteristics: Fariha, et al., 2022; Kogan & Papanikolaou, 2013; Aldamen, et al., 2011; Audit committee size: Altin, 2024; Audit committee attributes: Fariha, et al., 2024; Kallamu & Saat, 2015; Omotoye, et al., 2021; Kogan & Papanikolaou, 2013, Corporate governance: Turley & Zaman, 2004; Rezaee, et al., 2003; Audit committee independence: Klein, 2002; Chen, et al., 2005; Audit committee industry specialist: Chen, et al., 2005; Saat, et al, 2012; Chan, et al., 2020; Al-Hadrami, et al., 2020; Siagian & Tresnaningsih, 2011; Audit committee accounting expertise: Audit committee gender diversity: Alhababsah & Yekini, 2021; Mgbame, et al., 2020; Oradi & Izadi, 2019; Alkebsee, et al., 2021; Audit committee experienced members: Sultana, et al, 2019; and stock returns: Board gender diversity: Ahmed, et al., 2024; Audit committee meeting: Fariha, et al., 2022; Lin, et al., 2006; Aldamen, et al., 2011;

There hasn't been much research on audit committee characteristics in Bangladesh, despite the fact that the above-mentioned papers were written in a number of foreign nations. For this reason, the researchers selected "Impact of audit committee characteristics on stock returns: evidence from Bangladesh" for the investigation.

THEORETICAL FRAMEWORK, LITERATURE REVIEW AND, HYPOTHESIS DEVELOPMENT

Theoretical Framework

The audit committee is a crucial tool for improving the integrity of financial reporting and lessening information asymmetry, according to corporate governance literature. It is anticipated that audit committee characteristics including size, independence, accounting expertise and gender diversity will improve oversight and have an impact on stock returns. Previous research on this link, primarily from industrialized countries, offers conflicting results. The effectiveness of audit committees may be impacted in emerging economies by weak institutions and concentrated ownership. Despite legal changes, there is little empirical data on how audit committee characteristics affect stock returns in Bangladesh. This study investigates this relationship in the context of Bangladesh by reviewing the literature.

The conflict between managers and shareholders, which develops because managers may act in their own interests and have access to more inside information, is explained by agency theory. By independently confirming the integrity and fairness of financial accounts, high-quality audits contribute to the reduction of this information imbalance. Strong audit quality improves the transparency of reported financial information, restricts earnings manipulation, and fortifies managerial accountability. Investor confidence rises and the perceived risk of investing in the company falls when they have faith in the reliability of financial reporting. Stronger stock performance and more positive market reactions may result from this improved investor attitude. Therefore, by lowering agency issues and boosting financial reliability, Agency Theory offers a solid basis for comprehending how improved audit quality can favorably impact stock returns. Agency theory suggests that well-governed firms perform relatively better than their poorly-governed counterparts (Zhou, et al., 2018).

Signaling theory describes how businesses employ reliable signals to communicate to the market their actual quality, particularly when there is an information asymmetry between investors and management. Hiring respectable, independent auditors conveys a firm's dedication to openness, dependability, and solid governance in the context of audit quality. A high audit quality lowers the perceived risk for investors by indicating that financial statements are reliable and devoid of significant misstatements. Investor confidence rises when the market reads this signal favorably, which improves stock price reactions and may result in higher stock returns. Therefore, Signaling Theory offers a solid foundation for comprehending how businesses leverage audit quality to improve stock performance and sway market perceptions.

Information asymmetry theory states that managers typically know a company's operations and financial performance more thoroughly and precisely than do outside investors. This uneven information dissemination exposes shareholders to risk and uncertainty, which could negatively impact their investment decisions and the company's stock price. High audit quality helps close this information gap by ensuring that financial statements are trustworthy, transparent, and free of significant misstatements. When external auditors provide reliable assurance, investors are more confident in the reported financial performance, which reduces perceived information risk. In Bangladesh, where capital markets are still developing and transparency problems are common, high-quality audits are crucial to increasing investor confidence. Market participants are more likely to react favorably when information asymmetry decreases, which could result in higher stock returns. Therefore, information asymmetry theory offers a solid basis for comprehending how improved audit quality can affect stock performance in Bangladeshi companies.

This study contributes to the existing literature in the following several important ways:

First, it extends prior corporate governance research by providing robust empirical evidence on how specific audit committee attributes—namely committee size, independence, accounting expertise, and gender diversity—affect stock returns in an emerging market context. By focusing on stock returns as a market-based performance measure, the study adds to the limited evidence on the capital market consequences of audit committee effectiveness.

Second, by investigating the moderating influence of institutional ownership in the link between audit committee qualities and stock returns, the study contributes to the governance literature. It enhances agency theory and monitoring views by providing new insights into whether internal governance systems replace or supplement external monitoring by differentiating between companies with high and low levels of institutional ownership.

Finaly, legislators, business executives, and regulatory agencies can benefit greatly from the study's practical consequences. The results highlight how crucial it is to improve audit committee efficacy through ideal committee size, increased independence, improved accounting knowledge, and more female representation. In order to boost investor confidence and market performance, these findings can guide corporate governance rules, firm-level governance practices, and regulatory reforms.

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The remainder of the paper has been organized as follows. Section two reviews existing literature and develops hypothesis, Section three do the analysis of data, section four displayed the results and findings and section five conclude the study.

Audit committee and chairman of audit committee are not performing up to the expectation of the stakeholders which result in poor performance in the market (Fariha, et al., 2022).

Independent, competent boards of directors and audit committees are said to be important mechanisms of corporate governance (Chen, et al., 2005). When a large percentage of independent audit committee members have experience as practicing accountants and the company has clearly stated that the audit committee has the authority to notify the Stock Exchange of any violations of Exchange and other regulations, the audit committee will oversee improved firm performance (Saat, et al., 2012). The audit committee independence has a positive and significant influence on investment decision-making (Al-Hadrami, et al., 2020).

The audit committee must be financially independent. Thus, the companies must ensure that their audit committee is financially independent in order to reduce the influence of the management on their work and to strengthen the quality of the committee output (Spira, 1999). Existence of the AC independence is the true and fair picture of the firm's commitment for better corporate governance practices (Sommer, 1991). The audit committee independence significantly and positively affects the financial performance of insurance firms in Kenya (Ibrahim, et al., 2019). Two variables namely audit committee independence and AC activity remains insignificant effect on return on assets and Tobin's Q (Afza & Nazir, 2013). There is a positive impact of audit committee independence on audit quality (Saif, et al., 2024). There was a positive relationship between audit quality and the percentage of non-executive directors in the audit committee (Khudhair, et al., 20190. Independent AC members and profitability are significantly positively correlated, but dual director participation on the audit and nominating committees is significantly and negatively correlated with profitability (Kallamu & Saat, 2015). Audit committees with more experience and financial expertise are more likely to be associated with positive firm performance in the marketplace. Additionally, the authors find that long tenure as chairman of the audit committee has a negative impact on accounting performance. However, accounting performance is positively impacted by blockholder engagement and the chair of the board, whose members hold more external directorships (Aldamen, et al., 2011).

Auditing plays an essential role today, and both internal and external audits will provide users with helpful and reliable information. It needs to maintain effectiveness for internal audits. An internal audit is an important tool for the management in an organization, assisting management in providing influential opinions on future management policies and sustainable operation. The excellent cooperation between internal and external audits will make audit reports more accurate and helpful.

Stakeholders and regulatory bodies gain a great deal from the audit committee. The duties of the audit committee should include ensuring good accounting practices, internal controls, and prompt and high-quality disclosure of financial and other pertinent information to the board and shareholders. (DeZoort et al. (2002). The usefulness of the audit committee would only become apparent if its members fulfilled their responsibilities (Kalbers and Fogarty, 1993). One crucial tool for implementing good governance is an audit committee (Eichenseher and Shields, 1985). An audit committee's independence and financial knowledge determine how effective it is (Bedard et al., 2004; DeFond et al., 2005; Mangena and Pike 2005; (Krishnan & Ye, 2005); Hoque, et al., 2013).

There is a positive impact of audit committee independence on audit quality (Saif, et al., 2024). There was a positive relationship between audit quality and the percentage of non-executive directors in the audit committee (Khudhair, et al., 2019). When companies hire independent directors and independent audit committees, their earnings response coefficient (ERC) and total discretionary accruals (DA) both considerably improve. The JSX means Jamaica Stock Exchange's (JSX) corporate governance and financial reporting regulations, which mandate independent board members and an independent audit committee, enhance the caliber of earnings reported by Indonesian companies, which benefits financial statement users (Siagian & Tresnaningsih, 2011).

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Based on the research gap, the study arises the following research questions.

RQ1: Do the audit committee attributes impact the stock return?

To answer the research question, we investigate the relationship between audit committee attributes and stock return. Using secondary data from the top 68 firms listed on the Dhaka Stock Exchange (DSE) over the period 2019–2024, this study finds that audit committee size, audit committee independence, female representation on the audit committee, and the presence of finance and accounting experts significantly enhance stock returns. Moreover, the effects of audit committee size and female participation are more pronounced in firms with lower levels of institutional ownership, suggesting that these internal governance mechanisms can substitute for external monitoring. In contrast, audit committee independence and accounting expertise exert a stronger influence in firms with higher institutional ownership, indicating a complementary monitoring role.

REVIEW OF RELATED LITERATURE

Audit Committee Characteristics and Stock Returns:

Audit committee Size and Stock Returns:

Audit Committee (AC) is one of the important governance mechanisms whose major function is to improve the quality and performance of financial management and internal audit system (Treadway Commission, 1987 in Afza & Nazir, 2013). In Saudi Arabia, audit committees could not function well as governance tools (Kateb & Belgacem, 2023).

Audit committee size and affiliation with the big four have a significant and positive effect on firm performance but audit committee meetings don't have a significant effect on stock returns (Altin, 2024). There is a positively insignificant association between auditor size and firm performance (Kalita & Tiwari, 2025). The role of audit committees in ensuring the quality of corporate financial reporting has come under considerable scrutiny due to recent high-profile "earnings management" cases and the collapse of Enron. There is a negative association between the size of audit committees and the occurrence of earnings restatement. The remaining four audit committee characteristics (audit committee independence, financial expertise, activity, and stock ownership) are not found to have a significant impact on the quality of reported earnings (Lin, et al., 2006). The association between audit committee size, board size and Tobin Q was negatively significant (Omotoye, et al., 2021).

There is a significantly positive relationship between AC size (Audit Committee Size), AC Meeting (Audit Committee Meeting), AC Independence (Audit Committee Independence) and, the Tobin`s Q. On the other hand, board independence and legal counsel are significantly and negatively related to Tobin`s Q. Moreover, there has a positive but insignificant relationship between CEO tenure, CEO compensation, audit committee size, and the firm performance (Tobin`s Q). Furthermore, board change, the role of the secretary on the board, audit committee meeting, executive committee size and executive committee meeting are revealed to have a negative but insignificant association with firm performance (Tobin`s Q) (Al-Matar, et al., 2014). There is a statistical relationship between stock return and the audit committee (Azzoz & Khamees, 2016). Larger audit committees can be more effective as they are likely to include members with varied expertise to perform more intense monitoring of financial reporting practices (Baxter & Cotter, 2009).

There is a negative association between the size of audit committees and the occurrence of earnings restatement. The remaining four audit committee characteristics are not found to have a significant impact on the quality of reported earnings (Lin, et al., 2006). The smaller audit committees with more experience and financial expertise are more likely to be associated with positive firm performance in the market (Aldanen, et al., 2011).

Both the audit firm characteristics and audit committee factors have an impact on audit quality. An audit committee is simply referred to a constituted body that is giving authority and responsibility to oversee the financial reporting of a firm and report the findings to the top management for decision making. Two audit committee characteristics namely audit committee size and external audit quality has strong and significant positive impact on Return on Assets (ROA) and Tobin's Q. Another two variables namely audit committee independence and AC activity remains insignificant, which is consistent with mostly previous studies carried in different countries. In short, present study provides an insight to all the regulators, policy makers and stakeholders while adopting certain audit committee characteristics in Pakistan; overall firm's financial performance can be improved. The audit committee are the most meaningful to users of the financial statements and using them as the source of critical audit matters would assist the auditor in determining critical audit matters in the most efficient and effective manner. There is a significantly positive relationship between board size, board meeting, audit committee independence and executive committee independence, and the Tobin`s Q. On the other hand, board independence and legal counsel are significantly and negatively related to Tobin`s Q. Moreover, there has a positive but insignificant relationship between CEO tenure, CEO compensation, audit committee size, and the firm performance (Tobin`s Q). Furthermore, board change, the role of the secretary on the board, audit committee meeting, executive committee size and executive committee meeting are revealed to have a negative but insignificant association with firm performance (Tobin`s Q) (Al-Matar, et al., 2014).

H_1: Audit committee size has significant positive impact on stock returns.

Audit Committee Independence and Stock Returns

Audit committee independence is the composition of more non-executive directors than executive directors in the audit committee. Existence of the AC independence is the true and fair picture of the firm's commitment for better corporate governance practices (Sommer, 1991). Two variables namely audit committee independence and AC activity remains insignificant effect on return on assets and Tobin's Q (Afza & Nazir, 2013). The audit committee independence has a positive and significant influence on investment decision-making (Al-Hadrami, et al., 2020). There is a positive impact of audit committee independence on audit quality (Saif, et al., 2024). There was a positive relationship between audit quality and the percentage of non-executive directors in the audit committee (Khudhair, et al., 20190. Independent AC members and profitability are significantly positively correlated, but dual director participation on the audit and nominating committees is significantly and negatively correlated with profitability (Kallamu & Saat, 2015).

The internal audit evaluates a company's internal control, including the company's governance in compliance with laws and regulations and the company's internal finance accounting process. Internal audit is a necessary management tool that helps companies maintains accurate and timely financial reports while improving business efficiency.

There is a positive impact of audit committee independence on audit quality (Saif, et al., 2024). There was a positive relationship between audit quality and the percentage of non-executive directors in the audit committee (Khudhair, et al., 2019).

H_2: Audit committee independence has significantly positive impact on stock returns.

Gender Diversity in Audit Committee and Stock Returns

Female Directors have a negative and significant relationship with ROE (Fariha, Hossain, & Ghosh, 2022). The presence of female directors on the audit committee improves internal monitoring and communication, which reduce the perceived audit risk and the need for assurances from external auditors (Alkebsee, et al., 2021). The female presence on audit committees influences the quality of the external audit. Gender is the significant audit committee characteristic in predicting audit quality and that women on the audit committee strengthen the positive relationship between firm size and audit fees, and between risk and audit fees. Female representation dampens the positive relation-ship between complexity and audit fees (Aldamen, et al., 2018). The types of female and male financial experts on audit committees are associated with audit quality. The female directors and female accounting experts on audit committees are positively associated with audit quality. Corporate governance regulators' efforts to increase gender diversity in firms. It is important to consider the practitioners' views on audit quality, given that they possess more information about the audit and, hence, provide better judgment on audit quality. The female directors on audit committees act as an effective mechanism in improving audit quality (Abbasi, et al., 2020). The female auditors are more likely to reject unethical behaviors (Abed & Al-badainah, 2013).

H_3: Female directors in audit committee have significantly positive effect on stock returns.

Audit Committee Meeting and Stock Returns

Audit committee effectiveness demonstrates a positive relationship with audit quality. Furthermore, a strong

positive correlation between audit committee independence and effectiveness on audit quality was observed, highlighting the importance of robust audit committee frameworks in financial reporting credibility (Saif, et al., 2024). The role of audit committees is ensuring the quality of corporate financial reporting has come under considerable security due to recent high profile accounting scandals or earning management case (e.g. waste management case and WorldCom) and the collapse of Enron. Since the value of a firm is linked to reported earnings figures, it creates economic incentives or pressures for management to engage in earning management (Lin, Li, & Yang, 2006). The audit committee effectiveness had a significantly positive relationship with financial reporting quality. As the size of audit committee increased, financial reporting quality was improved (Kamolsakulchai, 2015). Audit committee negatively moderates the link between audit committee effectiveness (ACE) and earning management (EM) (Bawuah, 2024). The audit committee meetings showed no significant relationship with all performance variables (Aanu, Odianonsen, & Foyeke, 2014). Audit committee meeting has negative but insignificant association with firm performance (Al-Matar, et al., 2014);

H_4: Audit committee meeting have significantly positive impact on stock returns.

Audit Committee Experienced Member and Stock Returns

Both general domain and task specific experience made a significant difference in audit committee members' internal control assessments. of primary importance, members with experience made internal control judgments more like auditors than did members without experience (Dezoort, 1998). Prior job experience may have an impact on the monitoring of audit committee members (e.g. GAO, 1991; Lindsell, 1992; (McMullen & Jaenicke, 1992); (Dezoort, 1998); Lee & Stone, 1996). The audit committee member tenure, age and multiple-directorships are all positively associated with audit fees suggesting that experienced audit committee members may engage auditors to perform additional testing and willingly pay higher audit fees. The experienced audit committee members and auditors both play important monitoring roles in increasing audit quality (Sultana, et al., 2019). Banks should appoint credible and knowledgeable people to audit committee (Adewinmisi, et al., 2022). Experience on the audit committee is linked to better financial reporting and audit quality. (Sultana, et al., 2019). The audit committee has emerged as a key tool for businesses to keep an eye on the accuracy of the financial reporting procedure in recent years.

H_5 = Audit committee experience members' have significantly positive effect on stock returns.

The companies with a high ownership concentration, larger board size and the existence of audit committee tend to hire a high-quality auditor. There is a significant positive tendency of higher total asset firms to hire a quality auditor while firms with higher leverage tend to choose less quality auditors (Khan, et al., 2022). The corporate governance mechanism such as financial accounting expert, meeting and indicate significant results with real earning management (EM) while, audit committee independence and size, shows an insignificant result on real EM. Audit committee has a significant role in restricting the real earning management. Audit quality is found to significantly moderate the relationship between audit committee with financial reporting quality proxy (Hasan, et al., 2020).

Audit quality variable has positive regression coefficient; size has negative coefficient. The companies with high Levels of audit quality do not affect corporate governance disclosure. In addition, judging from the significance of the quality audit does not affect corporate governance disclosure. With the size of the company or high size it will affect the disclosure of corporate governance (Indrati, et al., 2018). The companies with a high ownership concentration, larger board size and the existence of audit committee tend to hire a high-quality auditor. There is a significant positive tendency of higher total asset firms to hire a quality auditor while firms with higher leverage tend to choose fewer quality auditors (Khan, et al., 2022). The corporate governance mechanism such as financial accounting expert, meeting and indicate significant results with real earning management (EM) while, audit committee independence and size, shows an insignificant result on real EM. Audit committee has a significant role in restricting the real earning management. Audit quality variable has positive regression coefficient; size has negative coefficient.

H_6: Audit committee experienced members have a significantly positive effect on stock returns.

Finance & Accounting Experts in Audit Committee and stock returns

The financial and monitoring expertise of ACC and experiential expertise of NCC positively influence return on assets, return on equity and the net profit margin of the firm (Chaudhry & Aftab, 2020). The effect of financial expertise is more pronounced when the audit committee is more powerful or when audit committee members face higher litigation risks. There is a negative effect of financial expertise on abnormal MD&A tone is more pronounced when audit committee members possess greater power or face higher litigation risks. These results suggest that financial experts have both the ability and the incentive to enhance the oversight role of audit committees, which, in turn, constrains the upward management of tone in the MD&A section (Lee & Park, 2018).

H_7: Finance and accounting experts in audit committee have significantly positive effect on stock returns.

Methodology of the Study

Sample and data

This study uses a quantitative, descriptive research approach to evaluate the impact of audit quality on stock returns for Bangladeshi listed companies, expressed as percentage changes in share prices. Since the 2018 Corporate Governance Code went into force in 2019 and comprehensive data after 2024 was not available, the years 2019–2024 were chosen. Secondary data was collected from the LankaBangla Financial Portal, DSE, CSE, and yearly reports. It was then processed in Excel and subjected to regression, correlation, and descriptive statistics using STATA and SPSS.

Table 01: Sector Wise Sample Company for the Study

As the researcher has been selected the leading companies of DSE and CSE. So, this was difficult to cover every sector for this study. The following table displayed the sample firm in respect of sector:

Name of Sector	Number of Sample Company
Bank	26
Chemical Industry	02
Engineering	06
Shoe Company	01
Telecommunication & IT	04
Insurance	01
Fuel & Power	08
Food & Allied	02
Ceramic	01
Cement	01
Travel & Leisure	01
Financial Institution	02
Pharmaceutical Companies	08
Miscellaneous	05

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Total	68

Variable measurement

The measurement of variables (Dependent variables, independent variables, control variables and the dummy variables are showing in the following table:

Table 03: Summary of Dependent and Independent Variables

Variables	Measurement Criteria
Dependent Variables	
Stock Returns (sr_2)	It is measured by (Closing share price + Dividend – Opening share price) ÷ Opening share price
Independent Variables	
Audit Committee Size (ac_size)	Total Number of Audit Committee Members (Abbasi, et al., 2020)
Audit Committee Independent (ac_ind)	Total Number of Independent Directors on the Audit Committee (Abbasi, et al, 2020)
Audit Committee Female Directors (ac_fem)	Total Number of Female Director on the Audit Committee (Abbasi, et al., 2020)
Audit Committee Finance and Accounting Experts (ac_faexp)	Total Number of Experts members in Audit Committee (Zhang et al. (2007) find that internal control weaknesses are related to a company's audit committee having less financial expertise or, more specifically, having less accounting financial expertise and non-accounting financial expertise.)
Audit Committee Members Change (ac_change)	Change of Members in Audit Committee at different Accounting Period
Audit Committee Meeting (ac_meet)	Total Number of Meeting Held during a Period (Afza & Nazir, 2014)
Control Variables	
Return on Assets (roa)	(Profit after Tax ÷ Total Assets) × 100 (Al-Ahdal, et al., 2020 & Ciftci, et al, 2019)
Leverage (lev)	Total Debt ÷ Total Assets
Market to Book Value (mbv)	Market to book Value
Age (age)	Firm_Age log
Board Size (b_size)	Board Size
Board Independent (b_ind)	Board Independent (Pr Independent Directors on the Board) (Abbasi, et al., 2020)
Board Female Directors (b_fem)	
Dummy Variables	
Year Dummy	Controls for time-specific effects
ε_{it}	Error term

Model for measurement of

Stock Returns =β_0 +$\beta_1$ac_size + $\beta_2$ac_ind +$\beta_3$ac_femd +$\beta_4$ac_expert + $\beta_5$ac_exp+ β_6 ac_meet +β_7f_size +$\beta_8$lav +$\beta_9$roa+β_{10}mbv +β_{11}age +β_{12}b_size +β_{13}b_ind +β_{14}b_fem +year dummy +€

This framework examines the influence of audit committee attributes and organization-level control factors.

The sample consists of the entities outlined in the subsequent section.

RESULTS AND DISCUSSION

Table 04. Descriptive Statistics

Variables	N	mean	sd	p25	p50	p75
sr2	408	0.530	0.599	0.150	0.449	0.771
ac_size	408	3.904	1.037	3	4	5
ac_ind	408	1.449	0.854	1	1	2
ac_fem	408	0.669	0.787	0	0	1
ac_exp	408	1.637	1.120	1	2	2
aud_fchange	408	0.451	0.498	0	0	1
big_4	408	0.397	0.490	0	0	1
j_audit	408	0.213	0.410	0	0	0
aud_ten	408	0.578	0.494	0	1	1
f_size	408	11.297	1.744	10.028	11.546	12.791
lev	408	0.687	0.270	0.485	0.755	0.931
roa	408	5.001	7.221	0.684	1.798	6.169
mbv	408	3.677	7.113	0.720	1.242	3.610
age	408	3.013	0.676	2.639	3.045	3.584

Table 04 presents the descriptive statistics for 408 firm-year observations. The mean stock return is 0.53, suggesting overall positive market performance among Bangladeshi listed firms. Audit committee characteristics indicate an average size of four members, moderate financial expertise, and limited female participation. About 40% of firms are audited by Big 4 auditors, 45% experienced auditor changes, and 21% engaged in joint audits. The average firm size (log of total assets) is 11.30, while the mean leverage ratio of 0.69 reflects moderate reliance on debt financing. Profitability, measured by roa, averages 5%, with substantial variation across firms. The mean market-to-book ratio of 3.68 indicates favorable investor valuation. Governance indicators show an average board size of 11 members, about two independent directors, and 20.7% institutional ownership. Overall, the dataset demonstrates significant diversity in audit quality, firm performance, and governance structures, providing a solid foundation for further empirical analysis.

Table 05: Pearson Correlations

Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
(1) sr2_w	1.000												
(2) ac_size	0.309	1.000											
	(0.000)												
(3) ac_ind	0.307	0.315	1.000										
	(0.000)	(0.000)											
(4) ac_fem	0.173	0.190	0.309	1.000									
	(0.000)	(0.000)	(0.000)										
(5) ac_exp	0.235	0.273	0.232	0.178	1.000								
	(0.000)	(0.000)	(0.000)	(0.000)									
(6) f_size	0.113	-0.011	0.031	-0.177	0.084	1.000							
	(0.022)	(0.832)	(0.533)	(0.000)	(0.089)								
(7) lev	0.080	0.122	0.077	-0.117	0.067	0.584	1.000						
	(0.108)	(0.013)	(0.119)	(0.018)	(0.180)	(0.000)							
(8) roa	-0.065	0.173	0.071	0.198	0.020	-0.447	-0.404	1.000					
	(0.193)	(0.000)	(0.150)	(0.000)	(0.694)	(0.000)	(0.000)						
(9) mbv	-0.028	0.083	0.106	0.073	-0.013	-0.413	-0.108	0.318	1.000				

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	(0.570)	(0.093)	(0.033)	(0.142)	(0.789)	(0.000)	(0.030)	(0.000)					
(10) age	-0.037	0.148	-0.095	0.036	0.001	0.077	0.201	-0.071	0.102	1.000			
	(0.457)	(0.003)	(0.056)	(0.474)	(0.983)	(0.123)	(0.000)	(0.155)	(0.040)				
(11) b_size	0.094	0.269	0.147	-0.160	0.068	0.363	0.407	-0.122	-0.131	0.040	1.000		
	(0.057)	(0.000)	(0.003)	(0.001)	(0.171)	(0.000)	(0.000)	(0.014)	(0.008)	(0.418)			
(12) b_ind	0.064	0.246	0.240	-0.024	0.209	0.226	0.229	-0.011	-0.048	-0.179	0.431	1.000	
	(0.199)	(0.000)	(0.000)	(0.635)	(0.000)	(0.000)	(0.000)	(0.830)	(0.333)	(0.000)	(0.000)		
(13) b_fem	-0.076	0.005	0.138	0.250	0.096	-0.035	-0.067	0.012	0.035	0.067	0.171	0.156	1.000
	(0.128)	(0.913)	(0.005)	(0.000)	(0.053)	(0.480)	(0.176)	(0.803)	(0.476)	(0.178)	(0.001)	(0.002)	

The correlation coefficients between the research variables are shown in Table 2. Stock Return (sr2_w) has positive and substantial correlations with ac_size, ac_ind, ac_fem, and ac_exp, suggesting that higher returns are typically experienced by firms with stronger audit committee characteristics. Larger committees typically have more independent, gender-diverse, and knowledgeable members due to the favorable correlation between audit committee qualities. As is common for larger companies with more organized governance, firm size (f_size) is positively correlated with leverage (lev), board size (b_size), and board independence (b_ind. Profitability (roa) and leverage have a negative correlation, whereas roa and market-to-book value (mbv) have a positive correlation. Size, independence, and female participation on the board exhibit moderate relationships with audit-related characteristics. The correlation values are generally low to moderate, indicating that there are no significant problems with multicollinearity. While market-to-book value (mbv) has a positive relationship with profitability, leverage exhibits a negative correlation with roa. A number of audit committee variables show moderate correlations with board features (size, independence, female members). Overall, correlations are still low to moderate, suggesting that the dataset has no serious multicollinearity issues.

Multicollinearity

Variable	**VIF**	**1/VIF**
ac_size	1.44	0.69206
ac_ind	1.37	0.729946
ac_fem	1.36	0.733946
ac_exp	1.18	0.846264
ac_meet	1.54	0.647352
f_size	2.06	0.485971
lev	1.96	0.511406
roa	1.54	0.650671
mbv	1.37	0.727812
age	1.27	0.788584
b_size	1.65	0.604842
b_ind	1.44	0.693266
b_fem	1.2	0.834943

The Variance Inflation Factor (VIF) results, which are used to assess multicollinearity between the independent variables, are displayed in the table. There is no multicollinearity issue because all VIF values lie between 1.18 and 2.06, which is much below the critical threshold of 10. Additionally, the matching 1/VIF values are rather high, indicating that each variable makes a distinct contribution to the model without significant overlap. f_size and lev exhibit somewhat higher VIF values, although they are still within a reasonable and safe range. Overall, the findings point to the stability of the regression model and the lack of multicollinearity risk associated with the independent variables.

Table 4. Baseline results: Internal audit quality and stock return

	(1)	(2)	(3)	(4)	(5)
	sr2_w	sr2_w	sr2_w	sr2_w	sr2_w

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ac_size	0.123***	0.183***			
	(4.04)	(6.16)			
ac_ind	0.131***		0.209***		
	(3.64)		(6.04)		
ac_fem	0.095**			0.186***	
	(2.44)			(4.80)	
ac_exp	0.057**				0.109***
	(2.26)				(4.17)
f_size	0.041*	0.047**	0.032	0.043*	0.030
	(1.92)	(2.09)	(1.42)	(1.89)	(1.31)
lev	-0.121	-0.086	-0.052	-0.057	-0.022
	(-0.90)	(-0.61)	(-0.37)	(-0.40)	(-0.16)
roa	-0.008*	-0.006	-0.002	-0.004	-0.002
	(-1.87)	(-1.35)	(-0.50)	(-0.91)	(-0.33)
mbv	0.001	0.001	-0.001	0.003	0.001
	(0.17)	(0.31)	(-0.33)	(0.57)	(0.30)
age	-0.069	-0.082*	-0.009	-0.048	-0.038
	(-1.58)	(-1.85)	(-0.21)	(-1.08)	(-0.85)
b_size	0.007	0.000	0.007	0.016**	0.011
	(0.95)	(0.04)	(1.01)	(2.09)	(1.41)
b_ind	-0.046	-0.024	-0.018	0.005	-0.013
	(-1.60)	(-0.80)	(-0.63)	(0.17)	(-0.42)
b_fem	-0.066***	-0.034	-0.055**	-0.074***	-0.049**
	(-2.99)	(-1.58)	(-2.51)	(-3.18)	(-2.19)
year _dummy	yes	yes	yes	yes	yes
_cons	-0.334	-0.328	-0.020	-0.009	0.072
	(-1.28)	(-1.21)	(-0.08)	(-0.03)	(0.27)
N	408	408	408	408	408
F	7.628	6.261	6.143	5.072	4.621
r2	0.250	0.182	0.180	0.153	0.141
r2_a	0.217	0.153	0.150	0.123	0.111

t statistics in parentheses

* $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

The table presents the regression outcomes assessing the influence of audit committee attributes on stock returns (sr2_w). In all model specifications, audit committee size (ac_size), independence (ac_ind), female representation (ac_fem), and accounting expertise (ac_exp) exhibit positive and statistically significant impacts on stock performance, implying that effective audit committees contribute to improved firm outcomes. Among control variables, firm size (f_size) and board size (b_size) show mild positive relationships, whereas board female membership (b_fem) demonstrates a consistent negative and significant association. The r^2 values (0.141–0.250) indicate moderate explanatory capacity, and year dummy variables are included to capture period-specific variations.

Table 5. Internal audit quality and stock return: Role of Institutional investors

	(Low)	(High)
	SR	SR
ac_size	0.121**	0.086**
	(2.60)	(2.13)
ac_ind	0.113**	0.150***

	(2.10)	(3.14)
ac_fem	0.131**	0.068
	(2.01)	(1.40)
ac_exp	0.057	0.068**
	(1.39)	(2.02)
f_size	-0.000	0.080**
	(-0.01)	(2.55)
lev	-0.394**	0.410*
	(-2.16)	(1.90)
roa	-0.017***	0.026**
	(-3.21)	(2.60)
mbv	0.001	-0.019
	(0.27)	(-0.87)
age	-0.069	-0.103
	(-1.11)	(-1.38)
b_size	0.008	-0.007
	(0.76)	(-0.60)
b_ind	-0.015	-0.035
	(-0.35)	(-0.86)
b_fem	-0.122***	-0.048
	(-3.43)	(-1.54)
	(-1.23)	(-0.05)
year_dummy	yes	yes
_cons	0.408	-0.939***
	(0.97)	(-2.62)
N	210	198
F	4.191	5.208
r2	0.271	0.330
r2_a	0.206	0.266

The table 05 reports the regression outcomes evaluating the effect of audit committee attributes on stock returns (sr2) across two model estimations. In both models, audit committee size (ac_size) and independence (ac_ind) exhibit positive and statistically significant relationships with stock returns, implying that larger and more autonomous audit committees contribute to improved firm performance. Female representation (ac_fem) is significant only in Model 1, whereas audit committee expertise (ac_exp) becomes significant in Model 2, suggesting variation in their influence. Regarding control variables, firm size (f_size) and profitability (roa) show positive effects, while leverage (lev) presents mixed outcomes—negative in Model 1 but positive in Model 2. Board female membership (b_fem) consistently reveals a negative link with stock returns. The r^2 values of 0.271 and 0.330 demonstrate moderate explanatory strength, and both models include year dummies to account for temporal variations.

Autocorrelation Test

Wooldridge test for autocorrelation in panel data

H0: no first-order autocorrelation

F (1, 67) = 4.312

Prob > F = 0.0417

P-value less than 0.05 implies the existence of autocorrelation

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Heteroscedasticity

Modified Wald test for groupwise heteroscedasticity in fixed effect regression model

H0: sigma(i)^2 = sigma^2 for all i

chi2 (68) = 7010.94

Prob > chi2 = 0.0000

P-value less than 0.05 implies the existence of heteroscedasticity

Table 06: Displayed Robust Regression Addressing Heteroscedasticity, Autocorrelation and Cross-sectional dependence to address DKSE, PCSE and FGLS test in following table:

	Driscoll-Kraay Standard Errors (DKSE)	**Panel Correlated Standard Errors (PCSE)**	**Feasible Generalized Least Squares (FGLS)**
Variables	**Stock Return**	**Stock Return**	**Stock Return**
ac_size	0.123***	0.117***	0.113***
	(7.495)	(4.326)	(5.815)
ac_fem	0.0952***	0.129***	0.0973***
	(8.498)	(2.923)	(4.050)
ac_ind	0.130***	0.0128***	0.103***
	(6.124)	(4.228)	(4.611)
ac_faexp	0.0573**	0.0670*	0.0431***
	(3.011)	0.147	(2.704)
ac_meet	0.00972	0.0575	0.0600
	(0.0857)	(0.0670)	(1.106)
f_size	0.0412*	0.0451**	0.0369***
	(2.358)	(2.027)	(2.715)
lev	-0.126	-0.172	0.0199
	(-0.762)	(-0.776)	(0.199)
roa	(-0.00841)	(-0.00280)	(-0.000127)
	(-1.277)	(-0.333)	(-0.0420)
mbv	0.000807	0.00209	0.000681
	(0.331)	(0.295)	(-0.213)
age	-0.0689*	-0.0564	-0.0334
	(-2.086)	(-1.128)	(-1.132)
b_size	0.00701	0.00799	0.00713
	(1.400)	(0.927)	(1.273)
b_ind	-0.0461*	-0.0359	-0.00801
	(-2.479)	(-1.144)	(-0.387)
b_fem	-0.06660**	-0.0936***	-0.0512***
	(-3.562)	(-3.153)	(-3.294)
year_dummy	yes	yes	Yes
Constant	-0.343	-0.507	-0.734***
	(-1.293)	(-1.421)	(-3.848)
Observations	408	408	408
R-squared	0.250	0.271	
Number of groups	68		
Number of ID		68	68

Table 06 displayed the DKSE, FCSE and FGLE to address autocorrelation, heteroscedasticity and cross-sectional independence. The audit committee size, independence, and female participation of audit committees all exhibit positive and statistically significant effects across all models, demonstrating their considerable contribution to enhancing stock returns. Expertise from level of explanatory power.

Table 07: Displayed Endogeneity Issue by lead-lag Approach Endogeneity Issue (Lead-Lag Approach)

Variables	**Stock Returns**
f_sr	0.205***
	(0.0574)
ac_size	0.0956***
	(0.0323)
ac_fem	0.0926**
	(0.0427)
ac_ind	0.126***
	(0.0401)
ac_exp	0.0329
	(0.0280)
ac_meet	-0.00786
	(0.0114)
f_size	0.0405*
	(0.0228)
lev	-0.225
	(0.151)
roa	-0.0114**
	(0.00500)
mbv	0.00256
	(0.00445)
b_size	0.00538
	(0.00799)
b_ind	-0.0298
	(0.0303)
b_fem	-0.0737***
	(0.0239)
year_effect	Yes
constant	-0.397
	(0.262)
observation	339
r_squired	0.255

The table no. 6 displays an endogeneity test utilizing the lead-lag approach with stock returns as the dependent variable. The results are largely consistent with the baseline model. Positive and statistically significant effects on stock returns highlight the significance of audit committee size, independence, and female membership in terms of governance quality. The audit committee's expertise and meeting frequency are insignificant. While return on assets (roa) and board firm membership (b_fem) show strong negative associations, firm size has a favorable effect on stock returns among control factors. Other variables that are not statistically significant include market-to-book value, leverage, and board qualities. The model uses 339 observations, accounts for year effects, and has a low explanatory power with an R-squared of 0.255.

CONCLUSION

This study was done to investigate the impact of audit committee attributes like audit committee size, independence, gender diversity, experience member, finance and accounting expertise on stock returns. This paper provides empirical support for the incremental information content of audit committee, thus supporting the reliability of the auditing process, which seems in most cases, to be irreplaceable in the minds of investors. We find that audit committee size, audit committee independent, audit committee female diversity and board independent have significant effect on stock returns.

Using 408 firm-year observations from 68 top DSE-listed companies between 2019 and 2024, this study examines the impact of audit committee attributes on firm's stock returns. The empirical data highlights the importance of audit committee size, independence, female participation, and financial or accounting skill in bolstering governance systems by demonstrating their substantial beneficial effects on stock returns. On the other hand, important firm-level factors, such as market-to-book ratio, profitability, and leverage, have little explanatory power, while board-level traits, with the exception of female board presence, which shows a negative correlation, are essentially unimportant. Overall, the results confirm that the makeup of the audit committee is a more important factor in determining the quality of governance than more general board or organizational characteristics, indicating that strengthening audit committee structures may improve the efficacy of governance in Bangladeshi companies.

We have done autocorrelation test for panel data analysis. To check the autocorrelation between independent variables with the error term, we did DKSE, PCSE and FGLS test to obtain valid, robust, and efficient estimates in panel data models endogeneity test. To check non-constant variance of errors across panels we did heteroscedasticity test. After considering these terms we found equal result with base line regression. When we collect data, we have faced some difficulties. It would be better if we can collect information of more firms and for longer period. But it was difficult for the researchers because of time limitation, lack of man power and financial limitation. In Bangladesh we have no readymade data sources like abroad. So, more time and energy were required to collect a small quantity of data. It would be better for future researchers if they will get required information from any data sources like abroad. If this required information will be available then the future researchers will be benefited to do their research on the related work more easily and they may able to give suggestions to regulatory body to implement major changes in current rules.

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