CHAPTER-4

AUDIT QUALITY AND FIRM PERFORMANCE

"Good corporate governance is about 'intellectual honesty' and not just sticking to rules and regulations; capital flowed towards companies that practiced this type of good governance."
                                                                        - Mervyn King

4.1 Introduction

AQ serves as an external monitoring tool of CG based on the agency theory (Matoke & Omwenga, 2016). By reducing information asymmetry, AQ builds confidence among stakeholders who rely on accurate financial reporting. While agency theory prioritizes shareholder interests, stakeholder theory, established by Freeman (1984), emphasizes the need for financial stability for all stakeholders. This theory emphasizes the risk of fraudulent management behaviour and the crucial function of auditors in a principal-agent context.

External audits are critical in ensuring credible financial reporting for publicly listed corporations. Recent corporate scandals have increased stakeholder scrutiny of AQ, making it a topic of debate (Al-Ahdal & Hashim, 2021). Due to the increasing need for openness and the disclosure of significant information in accounting statements, Mutasher (2016) observed the "window-dressing" of information in his study. It is thought that the main duty of external auditors is to perform a reliable and accurate evaluation of financial statements to identify instances of accounting misbehaviour and departures from accepted accounting standards and procedures. Ironically, there have been instances where external auditors were implicated in corporate fraud on numerous occasions (Al-Ahdal & Hashim, 2021). The consequences of large audit failures, originally felt in the Western world, have spread to rising Asian economies, including but not limited to SAARC countries. The ignominy brought about by the fiascos such as Satyam Computers (2008), CITIC Pacific (2008), Crescent Group (2020), Tri-Pack Films Ltd. (2020), and numerous alike ironically stands as a testimony of the wreckage caused by the audit failures in the SAARC region. As the auditing profession in this region undergoes reforms similar to those adopted elsewhere, it is critical to assess the efficiency of these changes in improving AQ and, ultimately, the FP.

In this chapter, the association between AQ and FP is examined. Apart from observing the overall impact on the selected SAARC nations, the analysis also delves into the impact of AQ on FP country-wise. Further, the potential moderating effect of GA and culture influencing the association between AQ and FP is also analysed. Figures 4.1 and 4.2 illustrate the frameworks for analysing the AQ-FP relationship.
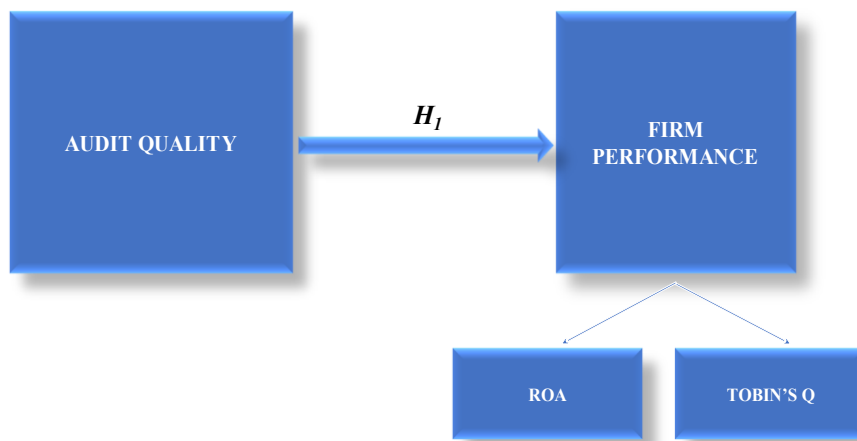

Figure 4.1: Framework for Analysis of AQ-FP Relationship
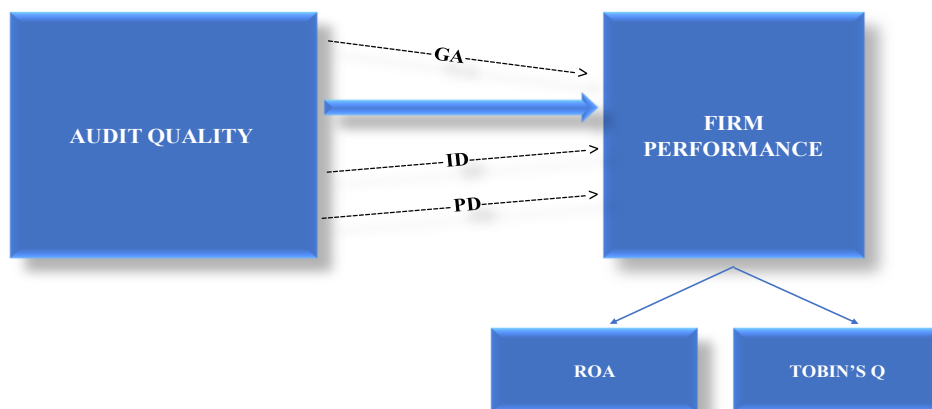
Source: Author's Design

Figure 4.2: Framework for Analysis of the Impact of Moderating Variables on the AQ-FP Relationship

Source: Author's Design

4.2 Investigation of the Relationship between AQ and FP

4.2.1 Descriptive Statistics

Table 4.1: Descriptive Statistics of AQ-FP Variables

Variables	Mean	S.D.	Min	Max	Skewness	Kurtosis
TQ	1.819	1.942	0.230	10.030	2.450	8.997
ROA	7.302	6.202	-2.950	32.610	1.573	6.277
AF	1.653	1.857	0.040	11.710	2.128	8.062
BIG4	0.657	0.474	0.000	1.000	-0.661	1.437
ACS	3.080	0.524	0.000	9.000	0.366	18.099
ACI	0.593	0.084	0.000	1.000	1.315	26.716
ACM	4.925	1.932	0.000	24.000	1.637	7.088
LEV	0.249	0.210	0.010	1.790	1.628	9.154
FS	6.116	2.096	0.993	12.193	0.393	2.657
FA	3.491	0.746	0.693	5.176	-0.244	3.096
GDP	1.669	0.345	0.832	2.208	-0.559	2.533
COR	33.250	5.527	25.000	41.000	-0.151	1.436

Source: Author's Computation

Table 4.1 provides descriptive statistics for various variables related to AQ and FP. The descriptive statistics broadly align with existing research on AQ and FP. The average value of 1.819 secured by TQ indicates that firms under study have typically valued above replacement cost, implying market optimism, which is consistent with previous research on the positive relationship between AQ and TQ. Furthermore, substantial business profitability is visible, with the mean ROA being 7.302. The average audit fee of 1.653 is within industry standards, with higher costs frequently equating to additional auditor efforts and competence, indicating higher AQ.

Furthermore, given their correlation with higher perceived AQ, the dominance of BIG 4s (0.657) is as expected. This is especially relevant in light of rising projections for FDI in South Asia (OECD, 2019), as foreign investors entrust more faith in the standing of BIG 4 firms. With previous research emphasizing the significance of robust audit committees for improved AQ, the average values for audit committee strength, independence, and meeting frequency (ACS: 3.080, ACI: 0.593, ACM: 4.925) reflect meeting the industry norms. Finally, the mean firm size (6.116) and age (3.491) are within expected norms, and the average leverage ratio (0.249) shows modest debt levels. Regarding the macroeconomic variables, GDP secured a mean of 1.669, and COR's mean at 33.250.

4.2.2 Correlation Analysis

Tables 4.2 and 4.3 outline the correlation matrices for the study. They exhibit that none of the variables correlates over 0.90. It can thus be inferred that multicollinearity is not a concern.

The correlation matrix reveals a complex interplay between variables influencing FP and audit characteristics. TQ, signifying market optimism and ROA, implying accounting profitability, exhibit positive associations with AF, BIG 4, FA, GDP and COR, suggesting potentially higher audit scrutiny and resource allocation for firms perceived as more valuable. However, the FP metrics negatively correlate with ACM frequency, hinting at potential trade-offs between internal and external monitoring. AF, in turn, show positive links with BIG 4 presence, larger FS, and older firms, likely reflecting increased complexity and risk. Similarly, BIG 4 preference aligns with higher fees, larger and older firms. ACS correlates with the FP measures, suggesting a potential association between larger committees, accounting profitability, and stronger market valuation.

Interestingly, ACM positively associates with fees and FS but negatively with TQ, ROA and LEV, hinting at potential resource trade-offs and concerns regarding over-monitoring for highly leveraged firms. Notably, ACI and LEV exhibit significant correlations with ROA and TQ, suggesting potential links between independent oversight, lower debt, and higher market value. Overall, the matrix paints a nuanced picture of interdependencies, highlighting the need for further investigation to disentangle the complex relationships influencing FP and AQ.

Table 4.2: Correlation Matrix of AQ-FP Variables (with TQ as the Dependent Variable)

	TQ	AF	BIG4	ACS	ACM	ACI	LEV	FS	FA	GDP	COR
TQ	1										
AF	0.345***	1									
BIG4	0.046**	0.157***	1								
ACS	0.091***	0.196***	0.051**	1							
ACM	-0.081***	0.114***	0.050**	0.252***	1						
ACI	0.151***	0.262***	0.365***	0.001	0.237***	1					
LEV	-0.224***	-0.165***	-0.126***	-0.105***	0.087***	-0.046**	1				
FS	-0.006	0.320***	0.240***	0.296***	0.365***	0.446***	-0.025	1			
FA	0.077	0.099**	0.274	-0.004	0.154	0.259	-0.058	0.248***	1		
GDP	0.159***	0.190***	-0.250***	0.114***	0.063 **	-0.036	-0.082***	0.169***	-0.094***	1	
COR	0.172***	0.363***	0.428***	0.048**	0.249***	0.080***	-0.082***	0.497***	0.270***	-0.065**	1

Note: *, **, and *** represent significance levels at 10%, 5% and 1%, respectively.

Source: Author's Computation

Table 4.3: Correlation Matrix of AQ-FP Variables (with ROA as the Dependent Variable)

	ROA	AF	BIG4	ACS	ACM	ACI	LEV	FS	FA	GDP	COR
ROA	1										
AF	0.211***	1									
BIG4	0.190***	0.157***	1								
ACS	0.069**	0.196***	0.051**	1							
ACM	-0.090***	0.114***	0.050**	0.252***	1						
ACI	0.125***	0.262***	0.365***	0.001	0.237***	1					
LEV	-0.364***	-0.165***	-0.126***	-0.105***	0.087***	-0.046**	1				
FS	0.023	0.320***	0.240***	0.296***	0.365***	0.446***	-0.025	1			
FA	0.214***	0.099***	0.274***	-0.004	0.154***	0.259***	-0.058**	0.248***	1		
GDP	0.043*	0.190***	-0.250***	0.114***	0.063**	-0.036	-0.082***	0.169***	-0.094***	1	
COR	0.141***	0.363***	0.428***	0.048**	0.249***	0.080***	-0.082***	0.497***	0.270***	-0.065**	1

Note: *, **, and *** represent significance levels at 10%, 5% and 1%, respectively.

Source: Author's Computation

The VIF (Variance Inflation Factor) was also computed to improve robustness. The VIF results further attest that the data for the study does not suffer from multicollinearity. Mean VIF values stand at 1.710 and 1.950, far below the threshold of 5.

Table 4.4: VIF for AQ-FP Variables

Variables	VIF	1/VIF	Variables	VIF	1/VIF
AF	1.330	0.753	BIG4	1.480	0.675
ACS	1.200	0.830	ACS	1.190	0.840
ACM	1.230	0.813	ACM	1.240	0.809
ACI	2.800	0.357	ACI	2.800	0.357
LEV	1.080	0.926	LEV	1.070	0.932
FS	1.730	0.579	FS	1.730	0.576
FA	1.150	0.865	FA	1.180	0.845
GDP	1.560	0.640	GDP	1.670	0.598
COR	3.340	0.299	COR	3.280	0.305
Mean	1.710		Mean	1.950	

Source: Author's Computation

4.2.3.1 Results and Discussion

The outcomes of the System GMM Model applied to the panel data are shown in Tables 4.5 and 4.6. The insignificant AR (2) values demonstrate the absence of second-order autocorrelation, and the Sargan test findings confirm that there is no over-identifying limitation and that instruments are not linked with residuals. Both models have significant Wald Chi-Square values, indicating that they are well-fitted. The results meet all the criteria of the System GMM model; hence, they may be considered credible.

Table 4.5: System GMM Results for BIG4-FP Association

Variables	ROA Model		TQ Model	
	Co-efficient	z-value	Co-efficient	z-value
Lag of dependent variable	0.004	0.14	-0.344	-1.41
BIG4	0.104	0.12	0.032	0.20
ACS	0.302*	1.65	0.044*	1.91
ACM	-0.071	-1.15	-0.012	-0.84
ACI	0.515	0.76	0.045	0.20
Lev	-2.632*	-1.97	0.185*	1.73
FS	0.383*	1.75	-0.445***	-3.70
FA	1.375*	1.69	1.541***	3.37
GDP	1.407***	2.77	0.215***	2.16
COR	0.015	0.16	0.088***	3.67
CG_Reform	Yes		Yes	

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Year	Yes		Yes	
Constant	-6.925*	-1.80	-5.751***	-2.65
Wald Chi sq	79.47***		212.70***	
AR (1)	-4.197***		-3.255**	
AR (2)	-0.329		0.307	
Sargan Test	0.327		0.260	
Woolridge Test for autocorrelation	49.353(0.000)		61.452(0.000)	
Breusch-Pagan / Cook-Weisberg Test for heteroskedasticity	12.93(0.003)		18.800(0.000)	
Durbin-Wu-Hausman Test for Endogeneity	34.298(0.000)		28.877(0.000)	
Note: *, **, and *** represent significance levels at 10%, 5% and 1%, respectively.				

Source: Author's Computation

The findings show an insignificant but favourable correlation between AQ and FP measures as measured by auditor size. Conversely, when AF maps AQ, ROA reports a strong positive relationship with AQ, albeit AF records a positive but insignificant association with TQ. The direction of the relationship between AQ and FP continues to be favourable.

Table 4.6 shows a positive relationship between AF and ROA, consistent with prior research (Fan & Wong, 2005; Ado et al., 2020; Bagais & Aljaaidi, 2020; Sattar et al., 2020). It is congruent with the agency theory premise, which states that AQ may minimize agency expenditures, regulate opportunistic management behaviours, and boost firms' operational profitability (Sattar et al., 2020; Al-Ahdal & Hashim, 2022). The results also show that higher fees given to auditors for their services instil a sense of dedication and a strong desire to guarantee that the firm receives the best audit service available. It guarantees that the firm gets the most value for its investment (Al-Ahdal & Hashim, 2022).

However, a non-linear relationship between AF and TQ is suggested, with fees' marginal impact on market value decreasing beyond a certain point. While greater expenses could initially imply better quality and inspire investor confidence, if fees keep rising, the effect might eventually level off or lose significance. Chen et al. (2013) found an inverted U-

shaped relationship between AF and TQ, which suggests that higher costs have a peaking effect on positive signalling.

Additionally, the BIG 4's insignificant but positive connection with both FP measures in Table 4.5 attests to its association with the 'signalling hypothesis'. According to Angsoyiri (2021), BIG 4s communicate a higher quality differentiation than non-brand name auditors because they have more reputation capital, which eventually positively impacts market-based FP metrics. While bigger firms may benefit from BIG 4 auditors' greater resources and experience, a moderate improvement in AQ may result in insignificant performance gains. This is supported by studies such as DeFond and Zhang (2014), who identified a positive association between auditor size and performance for smaller firms but a weaker or negative relationship for larger firms. Moreover, the effectiveness of auditor size in enhancing corporate performance can be influenced by many other institutional and regulatory factors.

Larger auditors may need to be more effective at deterring managerial opportunism or ensuring high-quality audits in countries with lower regulatory oversight and enforcement. According to Ho and Kang (2013), the relationship between auditor size and FP is higher in countries with stricter investor protection regulations. The findings of Elewa and El-Haddad (2019), Tanko and Polycarb (2019), and Monametsi and Agasha (2020) validate the same. Furthermore, in their cross-country investigation of developing countries, Kaawaase et al. (2016) found no difference in the AQ provided by the BIG 4 vs the non-BIG 4.

Table 4.6: System GMM Results for AF-FP Association

Variables	ROA Model		TQ Model	
	Co-efficient	z-value	Co-efficient	z-value
Lag of dependent variable	0.004	0.09	0.028	0.15
AF	0.102*	1.78	0.015	0.24
ACS	0.273*	1.81	0.086*	1.73
ACM	-0.003	-0.05	-0.048	-1.08
ACI	2.168	1.21	0.369	1.28
Lev	-2.288*	-1.76	0.180***	2.42
FS	0.329***	2.07	-0.491***	-3.02
FA	0.053	0.04	0.298	0.53
GDP	1.135**	2.20	0.134*	1.90

COR	0.076	0.71	0.078*	1.80
CG_Reforms		Yes		Yes
Year		Yes		Yes
Constant	-2.345*	-1.85	-0.321***	-2.95
Wald Chi sq	72.30***		103.27***	
AR (1)	-4.195***		-2.836**	
AR (2)	-0.239		-0.560	
Sargan Test	0.605		0.390	
Woolridge Test for autocorrelation	48.852(0.000)		63.937(0.000)	
Breusch-Pagan / Cook-Weisberg Test for heteroskedasticity	22.61(0.000)		19.18(0.000)	
Durbin-Wu-Hausman Test for Endogeneity	38.601(0.000)		13.103(0.003)	

Note: *, **, and *** represent significance levels at 10%, 5% and 1%, respectively.

Source: Author's Computation

Regarding the covariates, Tables 4.5 and 4.6 show that, among the audit committee characteristics, only ACM exhibits a negative correlation with both ROA and TQ. Ben Barka and Legendre (2017) believe that holding audit committee meetings frequently might lead to information overload, which hinders the members' ability to process and interpret information effectively. This may result in hasty decisions and a decreased ability to think critically and make mistakes. Also, according to Sharma and Sudha (2016), high meeting frequency may impair audit committee performance because of fatigue and information overload. Furthermore, overbearing legislation and compliance requirements can also foster a "check-the-box" mentality and an emphasis on formal procedures over substantive monitoring (Cohen et al., 2008).

ACS reports a positive and significant association with FP. This is centred around signalling theory assumptions and the empirical by Raghunandan and Rama (2007) and Bagais and Aljaaidi (2020). A large audit committee's diversified skill sets can communicate to the market that the organization has more expertise, experience, and resources, which can help it tackle any difficulty or problem naturally (Saleh et al., 2007).

In the case of ACI, an insignificant yet favourable association is established between ACI and FP in both cases. Audit committee regulations are a relatively new development in the area being studied. It is claimed that firms may engage in "window dressing" by appointing independent directors without verifying their involvement and influence in decision-making if there is no robust oversight effort (Bhagat & Bolton, 2008). As a result, nominal independence and actual committee effectiveness might remain the same (Cheng et al., 2020).

Moving on, ROA confirms that, for both AQ proxies, there is a significant negative relationship with LEV and a significantly positive association with FS. FA, however, fails to attest to any significant association. This aligns with the research conducted by Sayyar et al. (2015), Moutinho et al. (2012), and Bagais and Aljaaidi (2020). Moreover, the inverse relationship between LEV and ROA is contingent on the "pecking order hypothesis." This theory states that companies that borrow less can profit in accounting terms.

In contrast, the favourable association that TQ and LEV establish in both circumstances supports the hypothesis proposed by Jensen (1976). It asserts that the likelihood of overinvestment decreases with increasing leverage (Upadhyay & Zeng, 2014). Additionally, the predicted link between FA and FS with TQ supports the conclusions made by Bagais and Aljaaidi (2020) and Moutinho et al. (2012).

GDP attests a significantly favourable association with both the measures of FP. This is attuned to the findings of Vithessonthi and Tongurai (2015), Ogebe et al. (2016) and Ameen and Shahzadi (2017). These studies assert that higher GDP translates to higher economic activity in the nation, which leads to increased production, consumption and investments. These combined effects positively affect the FP.

Interestingly, a positive but insignificant association was exerted on ROA in the case of COR. However, this positive association was significant in case of TQ. This implies that COR has a positive bearing on the FP. This finding is consistent with prior evidence from Asia, supporting the "grease the wheels" concept. COR and FP have been found to be positively correlated in China (Jian & Nie, 2014), Indonesia (Vial & Hanoteau, 2010), and Papua New Guinea (Ezebilo et al., 2019). Bribes may even boost product innovation and exports in Vietnam (Nguyen et al., 2016) and India (Sharma & Mitra, 2015), despite possible productivity and efficiency costs. Imran et al. (2020) and Mendoza et al. (2015),

who studied firms in Pakistan and the Philippines, found that "greasing the wheels" is most prevalent in situations with weak institutions. Bribes are used to speed up bureaucratic processes. Kouznetsov et al. (2014) further attest that weak institutions discourage FDI, encouraging firms to use lower-commitment entry alternatives.

4.2.3.2 Robustness Test

Tables 4.7 and 4.8 document the results of the GEE model employing both the yardsticks of AQ against the FP measures.

Table 4.7: Results of GEE Population-averaged Model for BIG4-FP Association

Variables	ROA Model		TQ Model	
	Co-efficient	z-value	Co-efficient	z-value
BIG4	0.521	1.13	0.247	1.61
ACS	0.207*	1.68	0.146***	3.88
ACM	-0.056	-1.03	-0.033	-1.19
ACI	0.183	0.26	0.281	1.37
Lev	-4.067***	-5.34	0.175*	1.85
FS	0.698***	3.34	-0.254***	4.82
FA	1.191***	3.27	0.353***	2.80
GDP	1.358***	4.01	0.132*	1.75
COR	0.181	1.57	0.104***	6.11
CG_Reforms	Yes		Yes	
Year	Yes		Yes	
Constant	4.457**	2.34	0.256*	1.71
Wald Chi sq	134.88***			141.65***
Note: *, **, and *** represent significance levels at 10%, 5% and 1%, respectively.				

Source: Author's Computation

Source: Author's Computation

Table 4.8: Results of GEE Population-averaged Model for AF-FP Association

Variables	ROA Model		TQ Model	
	Co-efficient	z-value	Co-efficient	z-value
AF	0.175**	1.98	0.064	1.63
ACS	0.303*	1.70	0.116*	1.85
ACM	-0.035	-0.67	-0.027	-1.05
ACI	0.882	1.30	0.185	0.97
Lev	-6.321***	-5.00	0.603***	3.11
FS	0.388***	2.56	-0.313***	-6.47
FA	0.342	0.79	0.270	1.49

GDP	0.073*	1.82	0.205**	2.24
COR	0.008	0.17	0.094***	6.55
CG_Reforms	Yes		Yes	
Year	Yes		Yes	
Constant	5.640***	3.04	1.298**	2.25
Wald Chi sq	201.85***		205.35***	

Note: *, **, and *** represent significance levels at 10%, 5% and 1%, respectively.

Source: Author's Computation

4.3 Country-wise Analysis of the Impact of AQ on FP

4.3.1 Country-wise Descriptive Statistics

Table 4.9 enlists the country-wise descriptive statistics for the sampled nations. It can be observed that amongst the nations, India secures the highest profitability mean in both the measures of FP (2.921 and 8.975 in case of TQ and ROA respectively). In case of AF as well, the highest mean is registered against India. This can be attributed to the larger size of the firms compared to its neighbours which adds to the complexity of operations and resultingly higher degree of fees. In case of the other proxy of AQ, it was observed that Sri Lanka tops the chart with a mean BIG 4 of 0.954. The lowest presence of BIG 4 was recorded by Bangladesh with a mean of 0.21. Evidence suggests that owing to the peculiar institutional framework of the nation, the accrued benefits of employing BIG 4 auditors is negated (Kabir et al., 2011). Additionally, the restrictions imposed on the functioning of BIG 4s further encourage the engagement of domestic auditors and hence the minuscule mean of BIG 4s is plausible.

Moving on to the audit committee characteristics, all the nations have a mean ACS of above three. Following the recent CG reforms in the selected nations, formation of audit committees has become mandatory in all the nations under study excluding Sri Lanka. Audit committee formation is not mandatory for listed companies in Sri Lanka. However, the CG regulations highly encourage the same. The mean of ACS being above three implies the presence of standard number of members in the committee.

Further, with mean of ACM being above four in all the countries, it is plausible that at least four ACMs are held in one fiscal year. This is in convergence with the recommendations of the Blue-Ribbon Committee (1999) and the Treadway Commission (1987).

Furthermore, ACI is lowest for Bangladesh. It secures a mean of 0.324. A plausible explanation for this may be the embodied in the fact that while the Securities and Exchange Commission Regulations of 2013 mandates the presence of independent directors in the audit committee, it does not express any mandatory quota for the same. It states that audit committee should be formed with a minimum of three members of which at least one should be an independent director. Nevertheless, from zero as their minimum value to a mean which matches industry standards, the select countries have progressed significantly in formulating audit committees and worked towards strengthening their internal control.

Table 4.9: Country-wise Descriptive Statistics of AQ-FP Variables

Variables	Mean	S. D	Min	Max	Skewness	Kurtosis
Bangladesh						
TQ	1.590	1.267	0.240	7.310	2.197	8.761
ROA	5.320	4.892	-3.640	26.320	1.750	7.684
AF	0.848	1.029	0.050	5.770	2.625	9.791
BIG4	0.210	0.407	0.000	1.000	1.423	3.027
ACS	3.704	0.934	0.000	6.000	-0.146	6.391
ACM	4.378	2.073	0.000	24.000	4.270	35.971
ACI	0.324	0.122	0.000	0.750	1.112	5.202
LEV	0.269	0.245	0.010	1.790	1.807	8.538
FS	4.567	1.366	1.458	8.352	0.305	2.436
FA	3.177	0.690	0.693	4.753	-0.092	3.008
India						
TQ	2.921	2.616	0.500	11.060	1.511	4.401
ROA	8.975	5.517	0.980	24.180	0.816	2.903
AF	3.454	2.419	0.350	10.330	0.777	2.746
BIG4	0.704	0.456	0.000	1.000	-0.893	1.798
ACS	4.298	1.245	0.000	9.000	1.046	4.862
ACM	5.902	2.328	0.000	19.000	1.166	5.462
ACI	0.850	0.161	0.000	1.000	-1.019	5.238
LEV	0.197	0.175	0.000	0.640	0.568	2.097
FS	8.680	1.489	5.023	12.193	-0.133	2.159
FA	3.619	0.619	1.609	4.736	-0.406	2.766
Pakistan						
TQ	1.353	1.397	0.150	8.140	2.913	12.331
ROA	7.723	6.599	-5.400	28.100	0.742	3.624
AF	1.332	1.109	0.240	5.550	1.782	6.253
BIG4	0.760	0.427	0.000	1.000	-1.217	2.482
ACS	3.902	1.224	3.000	8.000	1.714	5.824
ACM	4.464	0.999	3.000	10.000	2.372	9.768
ACI	0.402	0.177	0.170	1.000	1.281	4.266
LEV	0.255	0.198	0.010	1.480	0.953	5.885
FS	5.945	1.471	0.993	8.708	-0.352	2.745
FA	3.443	0.642	0.693	4.663	-0.734	3.704

	Sri Lanka					
TQ	1.412	1.771	0.330	9.960	3.256	13.785
ROA	7.706	9.666	-1.010	61.740	3.920	20.256
AF	0.938	0.789	0.060	4.080	1.537	5.535
BIG4	0.954	0.209	0.000	1.000	-4.334	19.787
ACS	3.304	0.772	2.000	6.000	0.593	3.364
ACM	4.958	2.310	1.000	17.000	1.882	8.753
ACI	0.797	0.177	0.330	1.000	-0.166	2.096
LEV	0.270	0.213	0.010	1.610	2.138	12.592
FS	5.271	1.271	1.386	8.860	-0.225	3.533
FA	0.693	5.176	0.693	5.176	-0.377	2.840

Source: Author's Computation

4.3.2 Country-wise Results and Discussion

As previously discussed in the chapter, two proxies of AQ have been employed. Tables 4.10, 4.11, 4.12, 4.13 and 4.14 enfolds the results of the impact of AF as the proxy of AQ on the measures of FP. Again, Tables 4.15, 4.16, 4.17 and 4.18 outline the impact of BIG 4 or auditor size as a proxy of AQ on FP. Table 4.10 outlines a comparative Table highlighting the differences existent amongst the countries under study in respect of audit and the relationship between AQ and FP.

Table 4.10: Comparative Table of AQ across the Selected Countries

Bases	Bangladesh	India	Pakistan	Sri Lanka
Regulatory Body	Institute of Chartered Accountants of Bangladesh (ICAB).	Institute of Chartered Accountants of India (ICAI).	Institute of Chartered Accountants of Pakistan (ICAP).	Institute of Chartered Accountants of Sri Lanka (ICASL).
Audit Oversight Body	Financial Reporting Council (FRC).	National Financial Reporting Authority (NFRA).	The Audit Oversight Board (AOB) of Pakistan.	The Sri Lanka Accounting and Auditing Standards Monitoring Board (SLAASMB).

	Bangladesh	India	Pakistan	Sri Lanka
Auditor Independence Rules	Companies Act 1994 and Bangladesh Standards on Auditing (BSAs).	Companies Act 2013, Standard on Quality Control (SQC) 1, The Institutes of Chartered Accountants of India (Code of Ethics) 2019, SEBI (Listing Obligations and Disclosure Requirements) Regulations 2015 (SEBI LODR).	Companies Act 2017 & International Standards on Auditing (ISAs).	Companies Act 2007 & Sri Lanka Accounting Standards (SLAuSs).
International Standards Adoption	BSAs in convergence with ISAs.	Auditing and Assurance Standards in convergence with ISAs.	ISAs adopted directly.	SLAS in convergence with ISAs.
Audit Rotation	Rotation is required after every 3 years.	Rotation is required after a maximum of two five-year terms if the audit firm is a partnership and after one five-year term if the audit firm is a proprietorship.	Rotation is required after every 5 years.	Rotation is required after every 5 years.
Formulation of Audit Committees	The Securities and Exchange Commission's Regulations of 2013 and Bangladesh's CG Code of 2018 mandates the formation of Audit Committee.	The Companies Act, 2013 and Section 177 of Regulation 18,22 of Listing Obligation and Disclosure Requirement of SEBI (LODR), 2015 mandates the formation of Audit Committee in Indian context.	In Pakistan, the formation of Audit Committee was pioneered by the Code of CG (2002). Following it, the mandatory requirements were postulated by the Code of CG (2012) and Companies Regulations, 2017.	While the guidelines for the formation of audit committees were laid down in the Code of Best Practices of CG in 2013 by the Securities and Exchange Commission of Sri Lanka and the Institute of Chartered Accountants of Sri Lanka, it is not yet a mandatory requirement in Sri Lankan context.

| Findings of AQ-FP relationship | AF registers a significant positive impact on ROA and a positive but insignificant association in case of TQ in the context of Bangladesh. Again, in case of BIG 4, a significant positive association is attested on both ROA and TQ. The overall positive direction thus implies that AQ has a favourable impact on FP in Bangladeshi context. | In the Indian context, the two proxies of AQ exerted a positive but insignificant association with both the measures of FP, with the association between BIG 4 and TQ being the exception. BIG 4 was observed attesting a significant positive association with TQ. | In the context of Pakistan, it is evident that AQ has a positively significant impact on FP, with the impact of AF on TQ being the exception. | In the Sri Lankan context, auditor size (BIG4) attested a positive but insignificant association with both the measures of FP. AF, however, secured a positive and significant association with TQ while documenting a positive but insignificant association with ROA. |

Source: Author's Compilation

Table 4.10 outlines in brief the differences and regulations governing audit in the selected nations. The country-specific findings are discussed in details below:

Table 4.11: Results of System GMM Model for AF-ROA Association

Variables	Bangladesh		India		Pakistan		Sri Lanka	
	Coefficient	z-value	Coefficient	z-value	Coefficient	z-value	Coefficient	z-value
Lag of ROA	0.101***	8.43	-0.048*	-2.00	-0.136***	-4.54	-0.065***	-2.81
AF	0.261***	2.66	0.080	1.34	0.948**	1.82	0.064	0.69
ACS	-0.657***	-4.31	0.115	1.60	1.343***	4.03	-0.884***	-4.85
ACM	-0.046*	-1.67	-0.054*	-1.80	-0.364	-1.15	-0.015	-0.18
ACI	-0.279***	-5.23	-0.378	-0.41	-4.602	-1.45	-4.269***	-2.80
LEV	-1.211**	-2.38	-4.743***	-3.22	-1.934	-1.31	-4.425***	-4.63
FS	-0.119	-0.75	0.177	0.68	-0.581	-1.05	-1.490***	-5.97
FA	0.467	1.04	-2.362***	-3.47	-2.639***	-3.64	2.500***	4.54

	Bangladesh		India		Pakistan		Sri Lanka	
Year Dummy	Yes		Yes		Yes		Yes	
Constant	5.611***	5.61	3.653***	4.18	0.007***	2.47	0.646***	2.88
Wald Chi sq	151.53***		124.98***		137.8***		777.02***	
AR 1	-2.437**		-2.703		-2.976***		-3.273***	
AR 2	0.831		-0.226		-1.803		-1.423	
Sargan Test	0.686		0.667		0.115		0.463	

Note: *, **, and *** represent significance levels at 10%, 5% and 1%, respectively.

Source: Author's Computation

Table 4.12: Results of System GMM Model for AF-TQ Association

Variables	Bangladesh		India		Pakistan		Sri Lanka	
	Coefficient	z-value	Coefficient	z-value	Coefficient	z-value	Coefficient	z-value
Lag of TQ	0.099***	9.40	-0.072**	-2.25	0.143***	6.54	-0.234***	-4.98
AF	0.003	0.33	0.003	0.08	0.014	0.20	0.153***	6.46
ACS	-0.008	-0.42	0.042	0.96	0.139***	2.74	0.010	0.14
ACM	-0.010**	-2.22	-0.018*	-1.76	-0.025	-1.08	-0.020	-1.43
ACI	-0.077	-0.77	-0.346	-0.80	-0.019	-0.07	-0.010	-0.05
LEV	0.049	0.60	1.189*	1.69	0.620***	3.28	0.658***	3.41
FS	-0.321***	-3.64	0.097	0.97	-0.275**	-2.18	-0.277***	-6.16
FA	0.812*	1.86	-0.808***	-4.46	0.369*	1.69	-0.335**	-2.01
Year Dummy	Yes		Yes		Yes		Yes	
Constant	0.551***	4.83	2.616***	2.53	-0.340**	-2.30	2.325***	3.55
Wald Chi sq	242.711		332.66***		443.57***		856.19***	
AR 1	-2.461**		-3.570***		-2.743***		-1.850	
AR 2	0.697		-0.550		-0.828		-1.590	
Sargan Test	0.442		0.297		0.177		0.203	

Note: *, **, and *** represent significance levels at 10%, 5% and 1%, respectively.

Source: Author's Computation

Table 4.13: Results of GEE Population-averaged Model for AF-ROA Association

Variables	Bangladesh		India		Pakistan		Sri Lanka	
	Coefficient	z-value	Coefficient	z-value	Coefficient	z-value	Coefficient	z-value
AF	0.401*	1.84	0.237	1.37	0.146	0.37	0.577	1.57
ACS	-0.817**	-3.13	0.124	1.52	0.284**	2.60	-0.510	-0.68
ACM	-0.129*	-1.69	-0.026*	-1.84	-0.433*	-1.64	-0.061	-0.64
ACI	-1.618	-1.05	-0.780	-0.72	-4.509	-1.55	-0.740*	-1.63
LEV	-1.470*	-1.89	-1.519	-0.79	-9.308***	-4.08	-6.571***	-4.75
FS	-1.489	-0.43	-1.787***	5.11	-0.325	-0.69	-2.195***	-4.20
FA	1.429*	1.99	0.686	-0.83	-1.762*	-1.81	-0.569	-0.63
Year Dummy	Yes		Yes		Yes		Yes	
Constant	2.128*	1.86	1.466***	5.58	4.070*	1.67	4.746***	5.31
Wald Chi sq	105.86***		56.62***		35.09***		105.33***	
Note: *, **, and *** represent significance levels at 10%, 5% and 1%, respectively.								

Source: Author's Computation

Table 4.14: Results of GEE Population-averaged Model for AF-TQ Association

Variables	Bangladesh		India		Pakistan		Sri Lanka	
	Coefficient	z-value	Coefficient	z-value	Coefficient	z-value	Coefficient	z-value
AF	0.020	0.24	0.020	0.53	0.045	0.98	0.145*	1.57
ACS	-0.143	-1.47	0.077	1.33	0.112*	1.85	0.132	1.52
ACM	-0.056*	-1.83	-0.005*	-1.71	-0.011	-0.33	-0.034	-1.36
ACI	-0.594	-1.02	-0.464	-1.13	-0.406	-1.14	-0.264	-0.85
LEV	0.055	0.14	0.834	1.20	0.355*	1.72	0.886**	2.39
FS	-0.267**	-2.33	0.793***	5.32	-0.141*	-1.89	-0.593***	-4.91
FA	0.011	1.51	-0.669*	-1.71	0.004	0.04	0.449**	2.51
Year Dummy	Yes		Yes		Yes		Yes	
Constant	2.488***	3.95	11.636***	6.59	1.381**	2.03	2.552***	2.55
Wald Chi sq	65.06		48.73***		116.18***		68.94***	
Note: *, **, and *** represent significance levels at 10%, 5% and 1%, respectively.								

Source: Author's Computation

4.3.2.1 Bangladesh

AF registers a significant positive impact on ROA and an insignificant association in case of TQ in the context of Bangladesh. Again, in case of BIG 4, a significant positive association is attested on both ROA and TQ. The overall positive direction thus implies that AQ has a favourable impact on FP in Bangladeshi context. This mirrors previous findings of Kabir et al. (2011), Rahman et al. (2019,) and Meah et al. (2021). The significant associations strengthen the believe that higher AF paid and BIG 4 auditor employed implies higher quality of audit rendered which in turn translates into improved FP.

In the case of the ACC, a negative direction of association was documented against both the metrics of FP. This negative association has been documented by prior researchers as well (Rahman et al*.,* 2019; Meah et al*.,* 2021; Fariha et al*.,* 2022). ACS is strongly and negatively associated with the accounting profitability (ROA) in case of both the measures of AQ. However, albeit negative in direction, it fails to significantly influence the market perspective. ACM but attests a significantly negative association with FP in all cases. Mirroring ACS, ACI also exerts significantly negative association with ROA, but fails to influence TQ.

Despite regulations (BSEC, 2013 and BSEC, 2018) that mandate formation of audit committees in the nation acknowledging their accrued benefits, this inverse relationship is evidence of the audit committee has not been able to deliver the expected results. Therefore, a more stringent monitoring on the part of the regulatory authorities clubbed with a review of the existing regulations is suggested.

4.3.2.2 India

In the Indian context, the two proxies of AQ exerted a positive but no significant association with both measures of FP, with the association between BIG 4 and TQ being the exception. BIG 4 was observed attesting a significant favourable association with TQ. The findings correlate to those of Al-ahdal and Hashim (2022). The significant positive association of BIG 4 with TQ can be attributed to the 'signalling theory'. BIG 4 auditors amass greater confidence of the market owing to the 'reputation hypothesis' which in turn translates into higher FP (Angsoyiri, 2021; Kalita & Tiwari, 2023). The insignificant association in terms of ROA is however attributed to the fact that India has a robust regulatory structure, and accounting and auditing regulations are geared towards

regulatory and tax concerns rather than principle-based concerns. As a result, firms may employ a local auditor with experience in tax and regulatory concerns or prefer a BIG 4 auditor without having any significant sway on the accounting profitability (Al-ahdal & Hashim, 2022).

In case of ACC, ACS was positive but insignificant in all cases while ACI was negative but insignificant for all the models. ACM or audit committee diligence was significantly negative when AQ was proxied by AF. However, the same was negative but insignificant when BIG4 was employed as the measure of AQ. The positive but insignificant association implies that while audit committee is formed to augment the FP, in case of India, the study fails to provide any evidence on the same. This echoes the findings of Gurusamy (2017) and Al-ahdal and Hashim (2022). The results obtained for ACM are identical to that recorded by Bansal and Sharma (2016). They assert that the accounting profitability might be hindered by frequent meetings owing to information overload and additional administrative expenses to cover those meetings. Furthermore, the insignificant impact of ACI on FP is imperative of the weak enforcement mechanisms and shallow managerial expertise (Gurusamy, 2017; Al-ahdal & Hashim, 2022). To amplify the benefits of audit committee on FP, it is therefore suggested to enforce the mandates stringently and appoint members who are equipped and efficient.

4.3.2.3 Pakistan

In the context of Pakistan, it is evident that AQ has a significant positive influence on FP, with the impact of AF on TQ being the exception. This favourable association between AQ on FP implies that higher AF paid or greater auditor size enhances FP (Sattar et al*.,* 2020; Nawaaz et al*.,* 2023). Higher AF denotes greater audit effort, while employment of BIG 4 implies greater audit expertise. Both enhance investor confidence by reducing information asymmetry, mitigating risks and reducing agency expenses. Again, in case of the ACC, it is observed that ACS has a significantly positive association with ROA. Albeit positive, ACS has an insignificant association with TQ. Azfa and Nazir (2014) attribute this to the resource dependence theory. As per the theory, a huge audit committee may have more resources to resolve a firm's difficulties. This is because a larger committee could comprise people with a broader range of knowledge and experience, hence improving the accounting profitability of the firms. In case of TQ, the insignificant impact implies that the market is indifferent towards ACS. Furthermore, audit committee being a neoteric phenomenon, the

market-based measure, TQ, may take some time to reflect the influence that ACCs bear on FP (Bui & Krajcsák, 2023). In case of ACM and ACI, negative but insignificant associations with both the FP metrics were observed. These results concur with the findings of Azfa and Nazir (2014). A plausible explanation for the insignificant impact of ACI and ACM in Pakistan is management's substantial influence on board decisions (Rahman & Ali, 2006). This dominance prohibits the audit committee from properly exercising its monitoring duty and allowing it to operate unimpeded.

4.3.2.4 Sri Lanka

The auditor size (BIG 4) in Sri Lanka had insignificant favourable correlation with both FP indicators. On the other hand, AF reported a positive but negligible connection with ROA and a positive and substantial association with TQ. The insignificant association of the AQ proxies with the FP measures is in conformity with the findings of Rathnayake et al. (2021) and Abeygunasekera et al. (2021). This insignificant association is interesting to note as more than 95 percent of the sampled Sri Lankan firms employ a BIG 4 auditor. Pakianathan (2017) attributes this insignificant impact to the inadequate audit oversight mechanisms of the nation in force. Angsoyiri (2021) adds that the higher AF paid or BIG 4 auditor employed may be merely symbolic in nature in most developing nations which in turn fails to affect the FP significantly. A plausible reasoning for the significant favourable association between AF and TQ is perhaps also rooted in the signalling theory.

Turning to the ACC, ACS registered a significant negative association with ROA in case of both the AQ proxies. This association albeit negative was insignificant when tapped against TQ. Similar results were also documented for ACI. ACI attested significantly inverse association with ROA in case of both AF and BIG 4 while failing to significantly influence TQ. ACM however, was negative but insignificant in all cases which corroborates with the evidence provided by Danoshana and Ravivathani (2019). While the literature on ACC remains limited, the inverse association of ACC with FP is attributed to the inefficiency in the formation of audit committees (Balagobei & Thirunavukkarasu, 2018).

The guidelines for the formation of audit committees were laid down in the Code of Best Practices of CG in 2013 by the Securities and Exchange Commission of Sri Lanka and the Institute of Chartered Accountants of Sri Lanka. Despite the elaborate specifications on audit committees, they have not been able to reduce the agency costs and hence more stringent

oversight on their functioning and appointments of members based on requisite expertise and experience is suggested to reap positive results.

Table 4.15: Results of System GMM Model for BIG4-ROA Association

Variable	Bangladesh		India		Pakistan		Sri Lanka	
	Coefficient	z-value	Coefficient	z-value	Coefficient	z-value	Coefficient	z-value
Lag of ROA	0.078***	7.06	-0.284***	-3.70	-0.256	-1.53	-0.031	-0.39
BIG4	2.150***	5.58	0.118	0.19	4.508*	1.67	1.293	0.47
ACS	-0.468***	-2.77	0.039	0.26	1.064*	1.86	-0.773***	-3.34
ACM	-0.123*	-1.80	-0.064	-0.95	-0.167	-0.41	-0.032	-0.27
ACI	-9.238***	-6.50	-1.766	-1.31	-5.848	-1.32	-2.237**	-2.10
LEV	-0.788*	-1.64	-7.044**	-2.36	-2.083	-1.02	-5.237***	-2.99
FS	0.230	1.18	1.483***	0.497	-0.891	-1.35	-1.440**	-2.51
FA	0.385	0.83	0.002	1.506	-4.042***	-3.50	1.329	1.48
Year Dummy	Yes		Yes		Yes		Yes	
Constant	4.347***	4.03	-9.846**	-1.84	1.331**	1.83	1.739***	2.46
Wald Chi sq	853.18**		132.95***		141.44***		828.49	
AR 1	-2.427**		-2.790***		-3.325***		-3.041***	
AR 2	0.813		-0.255		-1.086		-1.768	
Sargan Test	0.685		0.198		0.352		0.590	

Note: *, **, and *** represent significance levels at 10%, 5% and 1%, respectively.

Table 4.16: Results of System GMM Model for BIG4-TQ Association

Variable	Bangladesh		India		Pakistan		Sri Lanka	
	Coefficient	z-value	Coefficient	z-value	Coefficient	z-value	Coefficient	z-value
Lag of TQ	0.085***	3.45	-0.078**	-2.26	0.142***	6.52	0.018	0.65
BIG4	0.234***	8.85	0.403*	1.74	1.025***	2.65	0.240	0.46
ACS	-0.004	-0.29	0.037	0.88	0.098*	1.79	-0.025	-0.45

ACM	-0.007**	-2.11	-0.007	-0.31	-0.023	-1.05	-0.016	-1.63
ACI	-0.147	-1.27	-0.419	-0.83	-0.101	-0.36	-0.137	-0.79
LEV	0.054	0.85	1.009*	1.69*	0.823***	3.89	0.633***	4.35
FS	-0.420***	-3.61	0.027	0.25	-0.338***	-3.56	-0.334***	-6.79
FA	0.787***	9.00	-0.826***	-3.85	0.132	0.94	0.050	0.55
Year Dummy	Yes		Yes		Yes		Yes	
Constant	-0.182**	-2.21	3.027***	2.78	0.567*	1.78	1.541*	1.84
Wald Chi sq	106.834***		182.96***		348.014***		759.41***	
AR 1	-2.506**		-3.520***		-2.670**		-2.198**	
AR 2	0.401		-0.367		-0.765		-1.650	
Sargan Test	0.533		0.211		0.199		0.201	

Note: *, **, and *** represent significance levels at 10%, 5% and 1%, respectively.

Table 4.17: Results of GEE Population-averaged Model for BIG4-ROA Association

Variable	Bangladesh		India		Pakistan		Sri Lanka	
	Coefficient	z-value	Coefficient	z-value	Coefficient	z-value	Coefficient	z-value
BIG4	0.438*	1.68	0.199	0.34	1.377***	2.23	1.444	0.72
ACS	-0.795***	-3.05	0.172	1.08	0.058**	2.28	-0.521*	-1.72
ACM	-0.133*	-1.74	-0.028	-0.34	-0.325	-1.54	-0.050	-0.52
ACI	-1.506*	-1.97	-0.484	-1.33	-0.327	-0.24	-0.709*	-1.60
LEV	-1.588	-1.51	-1.562*	-1.78	-4.426	-3.92	-6.318***	-4.55
FS	0.077	0.22	1.777***	4.88	-0.416**	-1.98	-2.600***	-5.23
FA	1.422**	2.45	0.837	0.97	0.800*	1.93	0.741	0.81
Year Dummy	Yes		Yes		Yes		Yes	
Constant	1.013*	0.42	0.874***	5.21	2.212**	1.66	6.415***	5.63
Wald Chi sq	102.15**		45.76***		813.28***		102.52***	

Note: *, **, and *** represent significance levels at 10%, 5% and 1%, respectively.

Table 4.18: Results of GEE Population-averaged Model for BIG4-TQ Association

Variables	Bangladesh		India		Pakistan		Sri Lanka	
	Coefficient	z-value	Coefficient	z-value	Coefficient	z-value	Coefficient	z-value
BIG4	1.033**	2.51	0.852***	4.06	0.609*	1.68	0.688	1.48
ACS	-0.013	-0.52	0.083	1.42	0.101*	1.65	-0.188	-1.57
ACM	-0.035*	-1.91	-0.003	-0.14	-0.019	-0.53	-0.044	-1.51
ACI	-0.297	-1.55	-0.505	-1.23	-0.382	-1.07	-0.282	-0.99
LEV	0.335***	3.92	1.124*	1.77	0.388*	1.87	1.665***	5.01
FS	-0.019	-1.09	-0.822***	-5.45	-0.196**	-2.77	-0.776***	-7.22
FA	0.081**	1.97	-0.839**	-2.11	-0.006	-0.06	0.363**	1.96
Year Dummy	Yes		Yes		Yes		Yes	
Constant	-0.334*	-1.66	1.871***	6.65	1.359***	2.05	2.467***	2.49
Wald Chi sq	40.61***		65.91***		116.66***		102.77	
Note: *, **, and *** represent significance levels at 10%, 5% and 1%, respectively.								

Source: Author's Computation

4.4 Results of Moderating Influence of GA on BIG4 and FP

4.4.1 Moderating Role of GA

Diversified commercial conglomerates serve as a foundational element in the social and economic structure of several developing nations. Groups, commonly referred to as "grupos" in Latin America, "business houses" in India, "chaebol" in South Korea, and similar terms in other regions, have a widespread presence in developing economies. A significant number of researchers are now involved in scholarly discussions on this specific type of organization, and they have proposed many theories to clarify the underlying factors contributing to the establishment of business associations (Lin et al., 2019).

In the Asian context, business groups' development and governance are intricately tied to ideas of institutional, resource-based, and social capital. Dela Rama (2012) claims that these organizations form to fill a need left by inefficient markets (institutional theory), leveraging their internal resources and network advantages. The shared production of value typically results in concentrated ownership structures (Dharwadkar et al., 2000),

which creates a new governance dilemma known as the principal-principal model (La Porta et al*.,* 2000). This model departs from the standard principal-agent paradigm in that dominant owners engage in a power struggle with minority shareholders, exacerbated by insufficient institutional safeguards and weak governance systems. This intricate connection necessitates a thorough understanding of emerging economies (Sanan et al*.,*2021).

While understanding the relationship between AQ and FP, it is rational to account for the potential moderating effect of GA. Despite the presence of limited literature on the same, theoretically, GA may affect the relationship between AQ and FP both favourably as well as adversely (Mardynly et al*.,* 2021). It is posited that the presence of strong GA can bolster the efficiency of internal control and information exchange system. This when coupled with high AQ can positively influence the FP. Contradictorily, in GAs with exacerbated ownership arrangements and possible conflicts of interest, even high-quality audit may fail to discover manipulation or related party transactions. In such situations, GA may negatively affect the relationship between AQ and FP (Muttakin et al., 2017). Thus, the effect of GA is contingent upon its nature.

Tables 4.19, 4.20, 4.21 and 4.22 tabulate the results of the moderating effect of GA on AQ-FP association. It is evident that the interaction coefficient in all the cases is negative but insignificant. This implies that GA fails to attest any influence on the AQ-FP relationship. The negative direction is in a way supported by the findings of Mohapatra and Pattanayak (2024). They argue that developing countries struggle to reap the benefits of GA due to economic constraints and administrative inefficiencies (Xu et al. 2022). The findings thus reiterate the need for more efficient internal control and managerial monitoring.

Table 4.19: Results of System GMM Model for Moderating Impact of GA on BIG4-FP Association

Variables	ROA Model		TQ Model	
	Co-efficient	**z-value**	**Co-efficient**	**z-value**
Lag of dependent variable	0.015	0.48	0.192	1.36
BIG4	1.284	0.57	0.280	0.88
GA	2.029	1.28	1.118	1.29
BIG4*GA	-1.582	-0.68	-0.328	-0.87
ACS	0.203*	1.70	0.166***	3.34

ACM	-0.014	-0.23	-0.022	-1.61
ACI	1.679	1.58	0.490	1.64
Lev	-2.936*	-1.93	0.092*	1.80
FS	0.324	0.80	-0.220*	-1.95
FA	0.289	0.25	0.048	0.33
GDP	1.214***	2.70	0.134	1.19
COR	0.019	0.23	0.011	0.57
CG_Reforms	Yes		Yes	
Year	Yes		Yes	
Constant	-1.661**	-2.25	-1.394**	-2.07
Wald Chi sq	359.86***		702.81***	
AR (1)	-3.897***		-3.529***	
AR (2)	-0.019		-1.241	
Sargan Test	0.186		0.132	

Note: *, **, and *** represent significance levels at 10%, 5% and 1%, respectively.

Source: Author's Computation

Table 4.20: Results of GEE Population-averaged Model for Moderating Impact of GA on BIG4-FP Association

Variables	ROA Model		TQ Model	
	Co-efficient	z-value	Co-efficient	z-value
BIG4	0.053	0.31	0.445	1.57
GA	0.078	0.48	0.519	1.64
BIG4*GA	-0.197	-0.95	-0.314	-1.09
ACS	0.015*	1.82	0.147***	3.92
ACM	-0.004	-0.15	-0.032	-1.15
ACI	0.482	1.58	0.263	1.29
Lev	-0.439*	-1.81	0.166*	1.81
FS	0.008	0.29	-0.254***	-4.82
FA	0.026	0.39	0.373***	2.94
GDP	0.687***	3.22	0.138	1.11
COR	0.037	1.20	0.102	0.95
CG_Reforms	Yes		Yes	
Year	Yes		Yes	
Constant	-0.269**	-2.40	0.097**	2.14
Wald Chi sq	53.76***		145.05***	

Note: *, **, and *** represent significance levels at 10%, 5% and 1%, respectively.

Source: Author's Computation

Table 4.21: Results of System GMM Model for Moderating Impact of GA on AF-FP Association

Variables	ROA Model		TQ Model	
	Co-efficient	z-value	Co-efficient	z-value
Lag of dependent variable	-0.280**	-2.43	-0.291**	-2.18
AF	0.061	0.32	0.018	0.38
GA	0.733	0.31	0.717	1.08
AF*GA	-0.191	-0.72	-0.122	-1.51
ACS	0.167*	1.72	0.113**	2.16
ACM	-0.002	-0.04	-0.016	-1.16
ACI	0.809	1.00	0.085	0.28
Lev	-1.823*	-1.70	0.112**	2.28
FS	0.232*	1.69	-0.241*	-1.92
FA	1.395*	1.92	0.156	0.82
GDP	2.431***	4.25	1.010**	2.08
COR	0.052	0.69	0.011	0.28
CG_Reforms	Yes		Yes	
Year	Yes		Yes	
Constant	3.042**	2.24	-2.255*	-1.93
Wald Chi sq	365.04***		155.26***	
AR (1)	-3.207**		-3.301***	
AR (2)	-1.235		0.468	
Sargan Test	0.163		0.194	

Note: *, **, and *** represent significance levels at 10%, 5% and 1%, respectively.

Source: Author's Computation

Table 4.22: Results of GEE Population-averaged Model for Moderating Impact of GA on AF-FP Association

Variables	ROA Model		TQ Model	
	Co-efficient	z-value	Co-efficient	z-value
AF	0.219	1.59	0.108	0.85
GA	1.838	1.34	0.516	1.05
AF*GA	-0.114	-0.61	-0.087	-1.59
ACS	0.215*	1.67	0.064*	1.78
ACM	-0.055	-1.00	-0.013	-0.88
ACI	0.193	0.27	0.034	0.18
Lev	-4.163***	-5.49	1.047**	2.22
FS	0.671***	4.23	-0.181***	-3.65

FA	1.168***	3.24	0.088	0.81
GDP	1.325***	3.92	0.235**	2.52
COR	0.161	1.15	0.060	1.04
CG_Reforms	Yes		Yes	
Year	Yes		Yes	
Constant	4.003***	2.10	1.202**	2.05
Wald Chi sq	143.64***		129.04***	

Note: *, **, and *** represent significance levels at 10%, 5% and 1%, respectively.

Source: Author's Computation

4.4.2 Moderating Influence of Culture

Accounting scholarship acknowledges the impact of cultural values on accounting methods ever since a relationship between these two realms was established by the pioneering work of Gray (1988). Further research, such as Hofstede's (1983) gauging of cultural variables across nations, has offered frameworks for examining these factors. In recent era, transparency and corporate governance are being aggressively improved throughout the emerging economies by regulators and economic reformers. The formulation and application of policies can only be improved by a deeper comprehension of the roles that audit quality and culture play (Astami et al., 2017). A well-established corpus of cross-national research examining the relationship between culture and FP has used several of widely recognized data sets (Hofstede, Schwartz, GLOBE, and World Values Survey). Among them, Hofstede's framework distinguishes as the pioneering and most acknowledged, and it is subsequently employed in the present study. Developed by Geert Hofstede, the Hofstede's national culture framework highlights six essential indices that set civilizations apart: power distance index, individualism versus collectivism index, uncertainty avoidance index, masculinity versus femininity index, short-term versus long term orientation index and indulgence versus restraint index. Following Yilmaz et al. (2005), Hughes et al. (2009) and Alzeban et al. (2015), amongst the six dimensions, the moderating influence of individualism versus collectivism index and power distance index have been examined in understanding the AQ-FP relationship.

4.4.2.1 Individualism versus Collectivism

Individualism and collectivism as cultural ideals are the most extensively investigated factors in the study of cultures (Hoxha & Ramadani, 2023). Individualists give priority to personal endeavours, which may or may not coincide with the intended objectives of the

groups they belong to. Collectivism, on the other hand, accentuates the interconnection of individuals within their social groupings, encouraging people to sacrifice individual pursuits for the greater good (Triandis, 1995). Based on the same, it is posited that individualistic cultures may place more emphasis on shareholder value and individual accountability, which perhaps may strengthen the AQ-FP link. However, while individualism encourages accountability and shareholder value, it may also have unforeseen effects on the quality of audits and FP. Severe short-termism may encourage aggressive accounting techniques, manipulation of results, and demand for reduced audit fees (Marrakchi et al., 2001; Astami et al., 2017). This combination may weaken auditor scepticism and result in unreported misstatements, which would eventually be detrimental to the long-term success of the firm. Furthermore, it is conceivable that there is less of an association between AQ and FP in collectivistic societies where group loyalty is valued highly. Investors may be more concerned about the welfare of the local community and employees than they do about shareholder profits (Hoxha & Ramadani, 2023).

The results examining of the moderating influence of individualism v/s collectivism (ID) on the AQ-FP relationship has been documented in Tables 4.23, 4.24, 4.25 and 4.26. The estimates of the System GMM model reveal that ID fails to significantly influence the AQ-FP association. There is lack of evidence highlighting the rationale behind this relationship as the domain of AQ and FP remains relatively underexplored. Nevertheless, strong shareholder protection systems are conducive to individualism in most economies. These procedures are still underdeveloped in SAARC nations, which potentially may reduce the relationship between FP and investor individuality, as is demonstrated by their concentration on certified financial accounts. Moreover, a significant proportion of family-owned firms are found in the chosen nations (Samphantharak, 2019). In these situations, the pursuit of long-term objectives and family interests may take precedence over the short-term maximization of shareholder profit (often linked to individualism). This may lessen the impact of individuality inclinations on the AQ and FP and hence the insignificant influence.

Table 4.23: Results of System GMM Model for Moderating Impact of ID on BIG4-FP Association

Variables	ROA Model		TQ Model	
	Co-efficient	z-value	Co-efficient	z-value
Lag of dependent variable	-0.062	-1.26	0.039	0.47
BIG4	2.062	0.55	0.051	0.15
ID	0.046	0.41	0.065*	1.95
BIG4*ID	-0.056	-0.64	-0.003	-0.37
ACS	0.483***	2.99	0.029*	1.67
ACM	-0.022	-0.45	-0.009	-0.71
ACI	0.125	0.13	0.175	0.84
Lev	-1.619*	-1.75	0.363	1.16
FS	0.827*	1.99	-0.423***	-4.12
FA	3.250***	8.32	0.573	1.02
GDP	0.863*	1.75	0.279***	3.43
COR	0.017	0.21	0.069***	3.27
CG_Reforms	Yes		Yes	
Year	Yes		Yes	
Constant	-2.119***	-4.21	-2.390*	-1.99
Wald Chi sq	268.26***		386.14***	
AR (1)	-5.400***		-4.199***	
AR (2)	-1.491		-1.074	
Sargan Test	0.321		0.319	

Note: *, **, and *** represent significance levels at 10%, 5% and 1%, respectively.

Source: Author's Computation

Table 4.24: Results of GEE Population-averaged Model for Moderating Impact of ID on BIG4-FP Association

Variables	ROA Model		TQ Model	
	Co-efficient	z-value	Co-efficient	z-value
BIG4	0.693	0.33	0.318	0.62
ID	0.042	0.74	0.063***	4.33
BIG4*ID	-0.002	-0.03	-0.005	-0.38
ACS	0.531***	3.24	0.036**	2.00
ACM	-0.037	-0.54	-0.024	-1.59
ACI	1.067	1.19	0.245	1.20
Lev	-2.004**	-2.31	0.465**	2.20
FS	0.099	0.48	-0.201***	-3.80

FA	1.770***	3.14	0.084	0.81
GDP	0.255*	1.71	0.322***	2.65
COR	0.056	0.79	0.038**	2.37
CG_Reforms	Yes		Yes	
Year	Yes		Yes	
Constant	1.238**	2.39	0.387*	1.69
Wald Chi sq	57.18***		113.44***	

Note: *, **, and *** represent significance levels at 10%, 5% and 1%, respectively.

Source: Author's Computation

Table 4.25: Results of System GMM Model for Moderating Impact of ID on AF-FP Association

Variables	ROA Model		TQ Model	
	Co-efficient	z-value	Co-efficient	z-value
Lag of dependent variable	-0.091	-0.62	0.214	1.52
AF	0.073	0.19	0.116	0.86
ID	0.070	0.73	0.008	0.42
AF*ID	-0.002	-0.28	-0.009	-0.27
ACS	0.558***	2.81	0.154***	2.80
ACM	-0.014	-0.35	-0.016	-0.98
ACI	0.894	1.08	0.018	0.06
Lev	-0.878*	-1.73	0.404*	1.89
FS	0.713**	2.00	-0.366**	-2.05
FA	1.917**	2.36	0.108	0.16
GDP	0.402	0.93	0.065	0.54
COR	0.026	0.38	0.016	0.53
CG_Reforms	Yes		Yes	
Year	Yes		Yes	
Constant	-7.984*	-1.75	-1.193***	-2.43
Wald Chi sq	342.51***		103.05***	
AR (1)	-5.432***		-3.240***	
AR (2)	-1.001		0.042	
Sargan Test	0.645		0.615	

Note: *, **, and *** represent significance levels at 10%, 5% and 1%, respectively.

Source: Author's Computation

Table 4.26: Results of GEE Population-averaged Model for Moderating Impact of ID on AF-FP Association

Variables	ROA Model		TQ Model	
	Co-efficient	z-value	Co-efficient	z-value
AF	0.284	0.80	0.082	1.04
ID	0.079	1.43	0.050	0.85
AF*ID	-0.004	-0.06	-0.001	-0.55
ACS	0.242**	1.77	0.135***	3.65
ACM	-0.034	-0.53	-0.036	-1.46
ACI	1.311	1.66	0.231	1.15
Lev	-1.941**	-2.39	0.199*	1.98
FS	1.017***	-5.59	-0.309***	-5.70
FA	1.698***	4.57	0.252**	2.07
GDP	1.791	0.75	0.014	0.11
COR	0.216	1.16	0.094	1.63
CG_Reforms	Yes		Yes	
Year	Yes		Yes	
Constant	1.609*	1.77	-0.509*	-1.72
Wald Chi sq	163.26***		172.43***	

Note: *, **, and *** represent significance levels at 10%, 5% and 1%, respectively.

Source: Author's Computation

4.4.2.2 Moderating Effect of Power Distance

PD refers to the degree of willingness to concede to the unequal power allocation among a country's institutions and organizations. In the context of business, managers have substantial decision-making authority and are less likely to come under internal examination in high power distance cultures. This may cause individuals to engage in earnings management techniques or take on riskier financial ventures. Additionally, managers may choose to follow procedures such as the prompt release of annual reports in order to reinforce the national culture (Gaganis et al., 2019). This may be interpreted as a strategy to preserve credibility and fend off attacks from influential people. Power distance, however, may result in less total information being included in yearly reports, even with timely disclosure (Vitolla et al., 2019). This lessens openness and makes it more difficult for auditors to determine the company's actual financial condition. The auditors may put in less time and effort on the audit if there is less information provided. This can

result in an audit with a worse quality, which would hurt the performance of the company (Bik & Hooghiemstra, 2017).

Table 4.27 and 4.29 document the System GMM estimates of the models examining the moderating influence of PD on the relationship between the two proxies of AQ and FP metrics. Table 4.28 and 4.30 provide the estimates of the GEE population averaged model to certify the tenability of the results. On examining the moderating influence of PD on the association between AQ and FP, the interaction term in all cases was found to be negative but insignificant. This implies that in the context of the SAARC nations under study, the degree of PD fails to significantly moderate the AQ-FP relationship.

Being a 'famine area' there is limited evidence to corroborate the findings. However, professing for the negative impact Alzeban (2015) states that in settings with overbearing power distance may put auditors at more risk of employee fraud. This is due to the possibility of financial record manipulation without early detection due to concentrated power and a culture of obedience to authority (Hell & Wang, 2009). To reduce this risk, auditors ought to consider assessing how well a company's internal controls function. These controls are intended to stop and identify fraud, and in high power distance circumstances, having a reliable system is even more important. The insignificant association may further be contingent on the indirect effect of other cultural dimensions and regulatory oversights of the nations under study.

Table 4.27: Results of System GMM Results for Moderating Impact of PD on BIG4-FP Association

Variables	ROA Model		TQ Model	
	Co-efficient	z-value	Co-efficient	z-value
Lag of dependent variable	-0.092	-1.53	0.198	1.23
BIG4	3.916	0.28	1.073	0.11
PD	0.148	0.89	0.040	0.41
BIG4*PD	-0.049	-0.28	-0.011	0.09
ACS	0.401**	2.24	0.145***	2.83
ACM	-0.038	-1.03	-0.015	0.95
ACI	0.562	0.73	0.031	0.10
Lev	-0.446**	-2.46	0.461*	1.84
FS	0.487*	1.70	0.296*	1.69
FA	1.633**	2.58	-0.026	-0.04
GDP	0.069	0.18	0.067	0.57

COR	0.031	0.54	0.019	0.65
CG_Reforms	Yes		Yes	
Year	Yes		Yes	
Constant	2.498**	2.18	-4.041**	-2.49
Wald Chi sq	313.74***		145.46***	
AR (1)	-5.218***		-3.243***	
AR (2)	-1.632		-0.344	
Sargan Test	0.521		0.519	

Note: *, **, and *** represent significance levels at 10%, 5% and 1%, respectively.

Table 4.28: Results of GEE Population-averaged Model for Moderating Impact of PD on BIG4-FP Association

Variables	ROA Model		TQ Model	
	Co-efficient	z-value	Co-efficient	z-value
BIG4	1.036	1.64	3.160	1.63
PD	0.035	0.57	0.032	1.47
BIG4*PD	-0.126	-1.58	-0.037	-1.51
ACS	0.303**	2.31	0.143***	3.79
ACM	-0.016	-0.32	-0.033	-1.20
ACI	1.467	1.04	0.275	1.33
Lev	-5.625***	-7.85	0.191*	1.93
FS	0.289*	1.76	-0.259***	-4.88
FA	1.234***	3.14	0.344	0.72
GDP	0.114	0.26	0.126	1.01
COR	0.065	1.14	0.105	1.07
CG_Reforms	Yes		Yes	
Year	Yes		Yes	
Constant	-0.357**	-2.07	-2.271*	-1.75
Wald Chi sq	134.50***		144.19***	

Note: *, **, and *** represent significance levels at 10%, 5% and 1%, respectively.

Table 4.29: Results of System GMM Model for Moderating Impact of PD on AF-FP Association

Variables	ROA Model		TQ Model	
	Co-efficient	z-value	Co-efficient	z-value
Lag of dependent variable	-0.061	-1.25	0.038	1.38
AF	0.221	0.16	0.551	1.52
PD	0.025	0.30	0.028	1.57
AF*PD	-0.002	-0.15	-0.007	-1.49

	Co-efficient	z-value	Co-efficient	z-value
ACS	0.462***	2.86	0.204***	2.95
ACM	-0.024	-0.51	-0.017	-1.58
ACI	0.078	0.08	0.098	0.39
Lev	-1.537*	-1.68	0.591**	2.35
FS	0.773*	1.92	-0.026	-0.25
FA	3.269***	5.58	0.015	0.26
GDP	0.683	1.05	0.324***	3.32
COR	0.014	0.18	0.022	0.97
CG_Reforms	Yes		Yes	
Year	Yes		Yes	
Constant	-8.522***	-2.82	-2.385*	-1.72
Wald Chi sq	304.12***		128.11***	
AR (1)	-5.395***		-4.480***	
AR (2)	-1.456		0.707	
Sargan Test	0.257		0.377	

Note: *, **, and *** represent significance levels at 10%, 5% and 1%, respectively.

Table 4.30: Results of GEE Population-averaged Model for Moderating Impact of PD on AF-FP Association

Variables	ROA Model		TQ Model	
	Co-efficient	z-value	Co-efficient	z-value
AF	0.329	0.39	0.148	0.61
PD	0.065	1.56	0.005	0.40
AF*PD	-0.006	-0.54	-0.001	-0.36
ACS	0.307***	2.34	0.142***	3.78
ACM	-0.020	-0.38	-0.034	-1.28
ACI	1.481	1.06	0.275	1.33
Lev	-5.692***	-7.95	0.164*	1.80
FS	0.248*	1.71	-0.230	-1.35
FA	1.236***	3.17	0.321	1.58
GDP	0.049	0.11	0.096*	1.77
COR	0.043	0.76	0.099	0.75
CG_Reforms	Yes		Yes	
Year	Yes		Yes	
Constant	8.064***	2.42	-0.070**	-2.06
Wald Chi sq	132.60***		143.99***	

Note: *, **, and *** represent significance levels at 10%, 5% and 1%, respectively.

4.5 Conclusion

Effective CG is built on the interwoven pillars of trust and openness. Managers and shareholders need to have fiduciary trust for an organization to run optimally. Managers must be transparent and honest in their pursuit of organizational success, and shareholders must have faith in their capacity to make wise judgements. Auditors help mitigate any bridge between the shareholders and management. In this chapter the impact of AQ on FP was examined for selected SAARC nations. The overall results demonstrated that when auditor size is the proxy for AQ, the direction though positive, fails to have any significant impact on both accounting and market-based measures of FP. However, when AQ is proxied by AF, it exerts a significant positive association on the accounting profitability (ROA) while failing to have influence on the market-based measure (TQ) of FP.

Family-owned firms dominate the SAARC region's growing economy, accounting for a sizable part of overall market value. Research on auditor selection and audit fees in these businesses shows two potentially opposing scenarios. One viewpoint, based on Ho and Kang (2013), contends that family-owned businesses may have decreased need for audit quality due to less pronounced Type I agency problems which are conflicts of interest caused by the separation of ownership and control. In family businesses, where ownership and control frequently overlap, the conflict may be less apparent. Consequently, they do not incur high AF. However, an alternate viewpoint emphasizes the possibility of heightened Type II agency concerns in family-owned businesses which emerge from managers' motivations to prioritize personal gain over shareholder interests ultimately leading to fraudulent behaviour. To combat these elevated audit risks, family businesses may need more thorough audits, which demands higher AF. This dynamic is apparent in the significant positive association between AF and ROA.

Furthermore, BIG 4s can primarily only function through affiliates in the selected nations. As a result, they seldom receive fee premiums, suggesting that the calibre affiliates of BIG 4 is not perceived to be on par with that of BIG 4 firms (Siddiqui et al., 2013). The observed high preference across the sampled firms for BIG 4s to be selected for external audit can be ascribed to the growing number of foreign shareholders who demand that the audit be carried out by "dominant auditors" (Ashbaugh & Warfield, 2003; Khan et al., 2015). The insignificant influence of BIG 4 despite their notable prevalence can be attributed to this lack of concern for the audit's quality.

Ceteris paribus, in light of the documented evidence, AF emerges as the more robust AQ measure. Furthermore, stronger implementation of internal controls and the promotion of a transparent culture inside these organizations are advocated to lower the likelihood of fraudulent activity and perhaps lessen the need for comprehensive and expensive audits.