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Research Article

Leveraging External Audit Quality to Boost Stock Returns: Context Bangladesh

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Abstract

The aim of this research is to investigate the effect of external audit quality; Big 4, joint audit, audit tenure, audit firm change, audit fee on stock returns. Design/methodology/approach - In this study, 408 company-year observations from 6 years of data on 68 leading listed firms on the DSE from 2019 to 2024 are studied. The predictor variables in this research comprise corporate governance procedures, including policies and devices that facilitate a firm's direction and performance, as audited by a Big 4 audit firm, audit tenure, audit firm change, audit fee, and institutional ownership. The study finds that a company audited by a Big 4-affiliated audit firm, joint audit, audit tenure and the number of staff in the audit firm significantly enhance stock returns, but the impacts of audit firm changes and audit fees do not significantly influence stock returns. This study is not free from limitations. First of all, unavailability of financial statement data of audit firms in any data sources is the major limitation of this study. Then financial crisis is also a limitation for collecting sufficient data. It would be better if we could collect data from more firms and for more time. The study suggests the policymakers and regulatory bodies to imply the rules to do audit possibly by big 4 affiliated firms, joint audit, should give logical time for audit activities completion to enhance stock returns. The audit firm must be rich by sufficient stuff who directly engaged in audit functions. This is an original work and have not yet been submitted to any other journal for publication. This study contributes to the existing literature on the external audit attributes and stock returns.

Keywords

External Audit Quality, Big 4 Affiliated Firm, Joint Audit, Audit Tenure

1. Introduction

In Bangladesh we have two stock markets DSE and CSE. Both markets experienced high fluctuations including market crash during the recent decades. Thousand investors become insolvent resulting from such crises. Many companies stock prices reach even below than their face value. Firms have been struggling to survive just by covering its regular expenses from its income. Investors' confidence has been regaining merely. In such a situation corporate governance mechanism can play vital role in ensuring financial transparency, accountability and high-quality reporting towards stakeholders. External audit, a very relevant corporate governance mechanism, help to ensure good governance, transparency, provide independent opinion and act as deterrent of fraudulent activities, ultimately enhancing investors' confidence and increasing

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stock returns.

This study is important because audit quality plays a critical function in determining investors' trust in economic data and, consequently, market pricing. The credibility that excellent external auditors offer can have a big impact on investors' perceptions of corporate value in developing markets like Bangladesh, where information asymmetry, reporting opacity, and insufficient investor protection are persistent problems. However, the lack of solid empirical evidence linking external audit quality to stock gains makes it difficult to determine whether the market actually rewards increased assurance. The study advances understanding of capital market efficiency in emerging economies by examining this link in the context of Bangladesh. It also provides relevant information about the financial advantages of improving audit quality for investors, listed businesses, and regulators.

Empirical studies in many countries have been done research works on external audit quality like: Big 4 affiliated firms audit the companies. While it is evident that non-Big 4 audit firms sometimes outperform those audited by Big 4 firms in terms of stock returns and the impact of Big 4-affiliated audit firms [29]. Earnings volume and equity value, as per Big 4 auditors, explain greater variations in stock returns than those audited by non-Big 4 auditors [26]. Earnings quality improves as investor protection strengthens, but only for clients of the well-known international Big 4 auditors. Earnings quality of non–Big 4 clients is consistent across investor protection regimes. Big 4 auditors do not universally enforce high-quality standards, failing to align with the motivations set by more stringent investor protection regulations [12]. An audit firm in the Big 4 category is associated with lower ex ante audit costs for clients in the U.S., but not in Canada or Australia. [22]. The impacts of Big 4-affiliated audit firms are inconsequentially different from those of non-Big 4 auditors on the three audit-quality proxies [25].

There is a proverb that “Two heads are better than one.” Joint audits by a small firm and a big firm may degrade audit quality because, in that situation, joint audits induce cheating among audit firms and reduce the precision of audit evidence [10]. The preference for a combined audit is linked with significant boosts in the prices settled by the client firm, proposing a higher perceived level of differentiation [35]. Using two Big Four audit firms may not necessarily yield the highest audit quality. The Big 4 and non-Big 4 (BS) auditor team can deliver better audit quality than the Big 4 and non-Big 4 (BB) auditor pair [28]. Higher-quality partners significantly reduce crash risk, with lead members exercising a stronger effect than review partners [32]. AA Big 4 audit firm (paired with a non-Big 4 audit firm) is more attainable for companies with more diversified ownership forms and fewer family block holdings, and these links are even more robust for firms with two Big 4 audit firms performing the joint audit [13].

Companies audited for at least 03 years at a time by an audit firm, and stock returns, like mandating auditor cycle, may have a negative effect on the traditionalism in reported earnings [20]. The effect of documented returns on company share scales evolves bigger with comprehensive tenure, although the link between debt ratings and reported earnings does not vary with tenure. The influence of past earnings on one-year-ahead earnings forecasts increases with tenure [14]. Longer auditor tenure impairs auditor independence and thus lowers audit quality. Earnings quality is perceived as highest when auditor tenure is 8–9 years [16]. In a long-term auditor-client relationship, the client's importance is critical. Long-term relationships between auditors and customers represent a bigger risk to auditor independence for smaller clients whom auditors do not closely watch as closely as larger ones [27]. the audit period is a critical feature that impacts the significance of corporate audits and thus impacts the quantity of firm-specific details that is contained in share costs by shareholders [34]. Both long-term and short-term auditor appointments are associated with greater use of discretionary accruals to meet or exceed revenue forecasts in the pre-SOX period [7]. Audit tenure affects firms' choices among various tactics in their attempts to avoid negative earnings surprises [15].

Customers trading from Andersen reported abnormal recoveries during the 3-day window encircling the control statement [1]. A substantial negative market reaction to auditor controls would indicate that the investing public perceives these regulators as management's opportunistic behavior [23]. In addition to price and audit quality, directors' evaluations of the quality of non-attest services and the anticipated quality of working relationships significantly influence the choice of auditor [2]. Companies that move from a non-Big Eight audit firm to a Big Eight firm experience averse irregular recoveries, whereas those that move in the reverse direction experience negative abnormal returns [30].

There are two ways that audit quality can be impacted by fees paid to auditors: high fees may encourage auditors to put in more effort, which would improve audit quality. On the other hand, auditors become more financially reliant on their customers when they get high fees, especially those associated with non-audit services. A relationship where the auditor is forced to invite relevant queries during the audit out of crisis for forfeiting extremely lucrative fees may result from this financial dependence [17]. Non-audit expenses are literally connected to the debt costs for an acquisition-grade issuer. The relationship between profitability and debt costs decreases when audit fees increase [11]. There exists an opposing affinity between audit fees and company performance, as indicated by ROA and ROE [19]. *The purpose of this research is to explore the effect of statutory audit characteristics on stock returns of DSE-listed firms.* The findings observe that external audit attributes, such as, big 4 affiliated firms, joint audit, audit tenure, positively impact on stock returns. This research contributes to the investors to decide in which firms they should invest. The study findings help the analysts to predict what should be the stock returns of a firm by analyzing statutory audit characteristics.

2. Theoretical Underpinning, Review of Related Literature and Development of Hypothesis

2.1. Theoretical Foundation

Agency theory provides a relevant link to reduce the conflict between shareholders (principals), managers (agents) supervise companies and signaling theory use to send signals to the investors to show their quality to investors. Financial statements may be falsified by managers for their own gain. By guaranteeing reliable financial reporting, high-quality external audits lessen agency issues. Companies use signals to demonstrate their excellence to investors. Hiring excellent auditors demonstrates the accuracy of the company's financial records. High-quality audits improve financial information reliability. Markets swiftly take this information into account to changes in stock returns. Type 1 agency difficulties are disagreements between shareholders and managers (principal-agent), while Type 2 agency problems are disputes between controlling majority shareholders and minority owners (principal-principal). Conflicting interests lead to both, which reduce company performance and increase owner costs.

2.2. Literature Review

The Big-4 impact exists in the private-firm segment also. The quality of audits improves when auditors switch from non-Big-4 firms to Big-4 firms [4]. Higher audit quality has a significant negative (-) effect on the crash risk [3]. When a joint audit is chosen, the client firm's fees rise dramatically, suggesting a higher perceived level of quality [35]. Tenure has little bearing on the impact of declared incomes on credit ratings, but it also increases the effect of declared profits on stock rankings [14]. There is a statistically significant negative association between total payments and audit quality proxies [17]. Even beyond the circumstances in which the audit firm was forced to rotate, the marked upsurge in audit expenses and hours during the post-regulation period implies that the implementation of a compulsory rotation of audit firms has a considerably greater effect than the exceptional cases of required trajectory [24].

2.2.1. Big 4 and Stock Returns

The Big-4 impact, or the belief that Big-4 audit companies deliver audits of higher quality than those of non-Big-4 companies, has been demonstrated by multiple investigations of companies [9]. One of the primary factors that clients consider when choosing audit firms is the reputation of the auditor. Auditor's standing becomes the primary consideration in selecting audit firms because they vary in their audit quality [6]. Compared to non-Big 4 audit firms, Big 4 companies might offer better quality than others [8]. The major four audit firms are maintaining their audit quality edge, and corporate financial statements audited by them are arguably of greater quality than those audited by non-big four accounting firms. Investor earnings predictability rises when a company's financial statements are audited by one of the big four accounting firms [18]. The Big 4 audit firms are prudent about the cost of customer misstatement and its impact on the auditor's reputation. They are more likely to adopt higher earnings quality standards as investor safety rules become stronger [12]. The earnings and book value of equity audited by big 4 auditors explain more variations in stock return than those audited by non-Big 4 auditors. They can explain a large number of divergences in stock returns, book value and earnings audited by Big 4 auditors are typically more valuable than those audited by non-Big 4 auditors [26]. In general, big 4 audit companies' audits of earnings and book value are more significant than those conducted by non-big 4 audit firms. The quality of audit is different among audit firms like big 4 audit firms may provide higher quality than non-big 4 [8]. Larger accounting firms provide better services since they have more reputations to maintain. The majority of auditing literature comes to the conclusion that big 4 auditors do better audits than non-Big 4 auditors, the treatment impacts of Big 4 and non-big 4 auditors are almost same in terms of discretionary accruals, the ex-ante cost-of-equity capital, and the accuracy of analyst forecasts [25]. Those audited by non-big 4 accounting firms do better than those audited by Big 4 firms [29]. For struggling companies, the big 4 are more likely to deliver going concern audit conclusions [40]. The Big 4 audit firms are of higher quality than are non-Big 4 firms [40]. The effectiveness of auditing depends on auditors' ability to constrain managers' opportunistic behavior in manipulating earnings, since auditors with higher quality are more likely to discover inappropriate accounting practices [26]. Compared to those audited by non-big auditors, earnings and book value of equities audited by Big 4 auditors may typically explain bigger differences in stock return. The capacity of auditing to independently verify the accuracy of accounting data is highly regarded since it enhances contracting efficiency and resource allocation [9]. As the nation's investor protection laws strengthen, earnings quality improves, but for only companies audited by Big 4 audit firms [8]. Earnings quality improves for corporations audited by the Big 4 when a polity's investor defense rule is more stringent; in particular, irregular accruals are less, the likelihood of reporting losses is low, and profit conservatism is greater [21].

There is little evidence that struggling companies are more likely to receive going concern audit findings from the Big 4. However, it appears that the performance-adjusted anomalous accruals of Big 4 and Second-tier audit firm clients are similar [41].

H_1: There is a significant positive association between a firm audited by a Big 4-affiliated audit firm and stock returns.

2.2.2. Joint Audit and Stock Returns

Joint audits help enhance audit quality by increasing the accuracy of audit evidence, as the proverb *'two heads are better than one'* suggests [10]. The joint audit has an adverse impact on the perceived independence of auditors [31]. There is an insignificant relationship between voluntary joint audits on the Iraqi stock exchange and financial reporting quality [2]. Firms audited by a Big 4–non-Big 4 auditor pair (BS) are more likely to book an impairment and book a larger impairment than firms audited by a Big 4–Big 4 auditor pair (BB) when low performance indicators suggest a greater likelihood of impairment. Additionally, companies audited by a BB pair disclose fewer impairments when they book impairments than companies audited by a BS pair, indicating a lack of openness for companies audited by a BB pair [28]. Big-4 firms can recruit non-Big-4 partners who deliver higher audit quality than other non-Big-4 partners in the pre-switch period [4]. The joint auditors' mandators evaluate the joint-audit mission quality based on the experience, the expertise, relative competence, specialization, qualifications, use of new technologies, satisfaction, audit-auditee independence of each auditor, distribution of the work which depends on asymmetry of size between the joint auditors, size of the company audited, audit complexity, leverage, profitability and governance of the company audited by the auditors. The joint auditors must never be connected by any partnership relationships or other direct or indirect ties that could compromise their independence, to uphold the principle of maintaining independence from the audited company. There should never be any partnerships or other direct or indirect ties that could jeopardize the joint auditors' independence. The task is divided between the two auditors based on their qualifications and areas of expertise. It is noteworthy that the two audit companies do not necessarily have the same size. A "Big 4" audit company sometimes works with a smaller one. When there is a wide discrepancy between the two joint-audit companies, the one with fewer resources carries out a much smaller share of the work. The division of work can be as high as 20/80 if the two businesses of equivalent size split labor evenly. As a result, the distribution will be equitable, with a few exceptions if the customer appoints a "lead auditor" because of his experience and length of service. Conflicts of interest are decreased, and the quality of information disclosure is enhanced by independence (both auditor-auditee and auditor-auditor [39].

H_2: There is a significantly positive affinity between a firm audited by joint audit firms and stock returns.

2.2.3. Audit Tenure and Stock Returns

As the affinity between credit ratings and notified earnings does not vary with tenure, the influence of reported incomes on stock rankings increases with longer tenure. As tenure increases, historical earnings have more impact on one-year earnings projections. Information intermediaries and investors believe that extended auditor tenure improves the quality of audit. Longer tenure increases the impact of reported earnings on stock rankings, but it has no effect on debt ratings. According to independent rating agencies, auditor tenure positively affects the quality of earnings. Stock market participants may incur unforeseen fees if the length of the auditor-client associateship is mandated [14]. With audit partner tenure, the absolute and positive values of earnings-management accruals increase significantly. As audit partner tenure increases, discretionary accruals' absolute and positive values dramatically decline. When efforts to boost revenue are the main focus, earnings quality declines with audit partner tenure [5]. Earlier years of the auditor-client relationship are likely to have somewhat less conservative reported earnings [20]. Investors perceive lower earnings quality during the early and later years of an auditor–client relationship. This perception does not change during the investigation period. Furthermore, the results show that earnings quality is perceived as higher when the auditor's assignment is for 8 to 9 years [16]. The date of the transformation is associated with corporate governance norms; audit panels appear to have engaged in the pre-conviction phase, whereas boards seem to have experienced the post-conviction period [1]. The results demonstrate that participant opinions of audit quality are marginally significantly poorer following a 24-year rotation cycle than following a 10-year rotation cycle [31].

H_3: There is a notable positive affinity between audit tenure and stock returns.

2.2.4. Audit Firm Change and Stock Returns

Changes in auditors have been closely observed by academics and authorities. Changes in auditors are motivated by management opportunism [9]. If an audit firm's reputation for quality audit declines, then clients start using alternative auditors [33]. Clients with good corporate governance appoint new auditors sooner than those with poor corporate governance [1]. The market would perceive any changes in auditors unfavorably [30]. There are statistically significant positive relationships between uninvited practices and the likelihood of either changing the audit firm or making a competitive offer [2]. Because audit fees are sticky, they do not instantly or completely adapt to changes in their determinants. Additionally, audit fees react faster to changes that result in an increase than they do to changes that result in a decrease. Audit fees do not instantly or fully reflect changes in their determinants. Furthermore, audit fees respond more quickly to modifications that lead to an increase than to changes that lead to a decrease. When four-year intervals are considered, the difference between positive and negative fee adjustments becomes negligible over longer time periods than a year [35]. While clients with poor corporate governance usually need a long time to find a substitute auditor, those with sound corporate governance can secure an efficient auditor early [1].

H_4: There is a significant positive association between the changes of the audit firm and stock returns.

2.2.5. Audit Fee and Stock Returns

There is a consequential negative relationship between total fees and the overall years of audit quality proxies. There are two ways fees given to auditors affect audit quality: high fees may encourage auditors to put in more effort, thereby improving audit quality. On the other hand, auditors become more financially reliant on their customers when they get significant fees, especially those associated with non-audit services [17].

Because audit fees are sticky, they do not instantly or completely adapt to changes in their determinants. Additionally, audit fees react faster to changes that result in an increase than to those that result in a decrease [36]. There is a significant decrease in audit fees in America from 1977 to 1981, and the audit industry has become increasingly competitive [37] Executive stock privilege is negatively associated with audit fees, whereas no association between non-institutional ownership and audit fees [38]. Audit fees rise if the correlation between wages and the cost of debt diminishes. For non-investment-grade companies, auditor fees directly affect the cost of debt; however, as non-audit fees rise, the correlation between earnings and the cost of debt diminishes [11]. Empirical studies across many economies have examined stock returns and the factors that affect them, including those that increase or decrease them. Nevertheless, very few studies have examined the impact of "audit quality" on stock returns, particularly in emerging economies.

No comprehensive study has been conducted on this topic in Bangladesh. This researcher has been encouraged to manage this gap by examining the effect of audit quality on stock returns in Bangladesh.

H_5: There is significantly positive association between audit fee and stock returns.

3. Methodology of the Study

3.1. Research Design

To investigate the impact of statutory audit features on stock returns of DSE listed leading firms according to market capitalization, this study uses a quantitative explanatory research approach. Secondary panel data from 2019 to 2024 of 68 leading companies are utilized. Stock Returns is the dependent variable of this study. Whereas big4 affiliated firms, joint audit. audit tenure, audit firm change and audit fee are used to gauge the competence of external audits. Control variables include profitability, firm size, mbv, and leverage. Panel regression models, correlation analysis and descriptive statistics are used to examine data. The Hausman test and diagnostic tests for multicollinearity and heteroscedasticity guarantee the robustness and dependability of the results.

3.2. Data and Sample

The present researchers draw their samples from all listed financial firms on the Dhaka Stock Exchange (DSE) in Bangladesh. As of the Corporate Governance Act 2018, which was implemented in 2019, and because 2024 data was not available in any data source, we have selected our sample year from 2019 to 2024. The DSE comprised 363 listed companies except non-financial firms. We include 06 year's data of 68 leading firms according to their market capitalization. This yields 408 firm-year observations spanning 2019–2024. Financial and corporate governance data were manually collected from company annual reports, company websites, DSE website reports and the Lank-Bangla Financial Portal. To analyze the data collected for this study, we have used statistical software STATA.

3.3. Model for the Study

We formulate the following empirical model to illustrate the affinity between audit quality and stock returns:

$$Sr2_{it} = \beta_0 + \beta_1 big\_4 + \beta_2 j\_audit_{it} + \beta_3 aud\_ten_{it} + \beta_4 af\_change_{it} + \beta_5 aud\_fee_{it} + \beta_6 f\_size_{it} + \beta_7 lev_{it} + \beta_8 roa_{it} + \beta_9 mbv_{it} + \beta_{10} age_{it} + \beta_{11} b\_size_{it} + \beta_{12} b\_ind_{it} + \beta_{13}\ b\_fem_{it} + year\_dummy + €_{it}$$

3.4. Variables

3.4.1. Dependent Variable

sr2 = Stock returns

3.4.2. Independent Variables

big_4 = Firm audited by big_4 affiliated firm, Dummy variable (1 if audited by Big 4, 0 otherwise)
j_audit = Dummy variable (1 if joint audit, 0 otherwise)
aud_ten = Audit tenure (years with same auditor)
aud_fchange = Dummy variable for audit firm changes
aud_fee= Audit Fee

3.4.3. Control Variables

f_size = Firm size (log of total assets)
lev= Leverage ratio
roa = Return on assets
mbv = Market-to-book value
age = Log of firm age
b_size = Board size
b_ind = Board independence
b_fem= Board female membership

3.4.4. Dummy Variable

year dummy = Controls for year-specific effects
å= Error term

4. Analysis and Findings

Table 1. Shows Summary Statistics.

	N	Mean	median	Std. Dev.	min	max
sr2	408	0.530	0.449	0.599	-0.37	3.493
big_4	408	0.397	0.000	0.49	0	1
j_audit	408	0.213	0.000	0.41	0	1
aud_ten	408	0.578	1.000	0.494	0	1
aud_fchange	408	0.451	0.000	0.498	0	1
aud_fee	408	1.162	0.940	1.065	0	12.43
f_size	408	11.297	11.546	1.744	7.196	14.164
lev	408	0.687	0.755	0.27	-0.041	0.995
roa	408	5.001	1.798	7.221	-2.788	33
age	408	3.013	3.045	0.676	0	3.892
b_size	408	11.475	10.000	4.531	3	22
b_ind	408	2.272	2.000	1.094	0	7

Table 1 presents descriptive statistics, including the mean, standard deviation and minimum and maximum values. This table reports descriptive statistics for 408 observations of the study variables. The mean value of sr is 0.530 (median 0.449) with a standard deviation of 0.599, ranging from −0.37 to 3.493, indicating moderate variation. Among the audit-related variables, big_4, j_audit, aud_ten, and aud_fchange have means of 0.397, 0.213, 0.578, and 0.451, respectively, showing that a smaller proportion of firms employ Big 4 auditors or joint audits, while more than half experience longer audit tenure. The mean aud_fee is 1.162 with substantial dispersion. Regarding firm characteristics, f_size averages 11.297 and lev 0.687, while roa_w shows wide variability (mean 5.001). The average age is 3.013. Governance variables indicate an average board size (b_size) of 11.475 and about 2.27 independent directors (b_ind).

Table 2. Shows Pearson Correlation.

Variables	1	2	3	4	5	6	7	8	9	10	11	12
sr2	1.000											
big_4	0.232***	1.000										
j_audit	0.261***	0.067	1.000									
aud_ten	0.245***	0.186***	0.020	1.000								
aud_fchange	-0.079	-0.061	0.009	-0.224***	1.000							
aud_fee	0.0065	0.021	-0.030	-0.041	-0.043	1.000						
f_size	0.113**	-0.031	0.0158***	-0.145***	0.023	0.087*	1.000					
lev	0.080*	-0.008	0.116**	-0.089*	0.050	-0.005	0.584***	1.000				
roa	-0.065	0.069	-0.129***	0.089	-0.020	0.015	-0.447***	-0.404***	1.000			
age	0.037	-0.014	0.244***	0.123**	0.065	0.137***	0.077	0.201***	-0.071	1.000		

Variables	1	2	3	4	5	6	7	8	9	10	11	12
b_size	0.094*	-0.031	0.132***	-0.070	-0.008	-0.016	0.363***	0.407***	-0.122**	0.040	1.000	
b_ind	0.064	0.128***	-0.069	-0.001	-0.023	0.088*	0.226***	0.229***	-0.011	-0.179***	0.431***	1.000

***p<0.01, **p<0.05, *p<0.1

Table 2 displays the Pearson correlation coefficients for twelve variables, with significant levels indicated. As demonstrated by the dependent variable's positive and significant relationships with Big 4 auditors (0.232), joint audit (0.261), audit tenure (0.245***), corporate size (0.113***), leverage (0.080*), and board size (0.094*), stronger audit qualities are associated with higher sr. Audit tenure and auditor change have a negative association (−0.224***). Firm size shows significant positive relationships with board size (0.363***), board independence (0.226***), and leverage (0.584***), whereas profitability (roa) is inversely connected with firm size (−0.447***) and leverage (−0.404***). Multicollinearity is not a major concern because none of the correlations are greater than 0.70. This table presents the Pearson pairwise correlation among the variables used in this study. Correlation coefficients marked with an asterisk are statistically significant at the (*** for 01%), (** for 05%) and (* for 10%) 1%, 5%, and 10% levels, respectively.

Table 3*. Shows Regression analysis.*

VARIABLES	(1) stock returns	(2) stock returns	(3) stock returns	(4) stock returns	(5) stock returns	(6) stock returns	(7) stock returns
big_4	0.205***	0.254***	0.254***				
	(0.0575)	(0.0586)	(0.0586)				
j_audit	0.314***			0.345***			
	(0.0732)			(0.0752)			
aud_ten	0.209***				0.257***		
	(0.0664)				(0.0666)		
aud_fchange	-0.0102					-0.0600	
	(0.0562)					(0.0579)	
aud_fee	0.0306						0.0336
	(0.0264)						(0.0279)
f_size	0.0275	0.0348	0.0348	0.0245	0.0384*	0.0337	0.0309
	(0.0208)	(0.0212)	(0.0212)	(0.0213)	(0.0214)	(0.0217)	(0.0218)
lev	0.0313	-0.0120	-0.0120	0.0478	-0.00803	0.00447	-7.42e-05
	(0.135)	(0.139)	(0.139)	(0.139)	(0.140)	(0.143)	(0.142)
roa	-0.00119	-0.00110	-0.00110	0.00133	-0.00142	7.50e-05	-0.000192
	(0.00441)	(0.00453)	(0.00453)	(0.00452)	(0.00456)	(0.00462)	(0.00463)
age	-0.0593	-0.0325	-0.0325	-0.0734	-0.0166	-0.0240	-0.0194
	(0.0443)	(0.0441)	(0.0441)	(0.0452)	(0.0444)	(0.0452)	(0.0455)
b_size	0.00736	0.0113	0.0113	0.00267	0.0103	0.00840	0.00918
	(0.00743)	(0.00753)	(0.00753)	(0.00760)	(0.00756)	(0.00768)	(0.00769)
b_ind	-0.00146	-0.00931	-0.00931	0.0210	0.00751	0.0109	0.00925
	(0.0291)	(0.0299)	(0.0299)	(0.0296)	(0.0297)	(0.0302)	(0.0302)
b_fem	-0.0128	-0.0378*	-0.0378*	-0.0122	-0.0403*	-0.0407*	-0.0419*

VARIABLES	(1) stock returns	(2) stock returns	(3) stock returns	(4) stock returns	(5) stock returns	(6) stock returns	(7) stock returns
	(0.0223)	(0.0222)	(0.0222)	(0.0230)	(0.0223)	(0.0227)	(0.0227)
year_effect	yes	yes	yes	yes	yes	yes	yes
constant	-0.0423	0.0388	0.0388	0.248	-0.121	0.137	0.0849
	(0.263)	(0.260)	(0.260)	(0.261)	(0.268)	(0.266)	(0.266)
observations	408	408	408	408	408	408	408
r-squared	0.208	0.144	0.144	0.149	0.136	0.106	0.107

Standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

Table 4 presents the correlation coefficients among 12 variables, with p-values shown in parentheses. The dependent variable, stock return, demonstrates significant positive associations with the Big 4. Lee & Lee (2013) found the same result; Louis (2005); Francis & Wang (2008); Lawrence et al. (2011). Joint audit has a significant positive effect on stock returns; the same result was found by Haapamaki et al. (2012), Zerni et al. (2012), and Deng et al. (2014). Audit tenure has a significant positive effect on stock returns. The same result was found by Gosh & Moon (2005); Jennifer et al. (2010); Boone et al. (2008), and Davis et al. (2009). A change in the audit firm doesn't have a significant effect on stock returns. The same result was found by Astana et al. (2010), Klock (1994), and Reid & Carcello (2017). Audit fees don't have a significant effect on stock returns. The same result was found by Hoitash (2007), Dhaliwal et al. 2007 & Malhotra & Poteau (2015). The standard errors are reported in parentheses. ***, **, and * denote significance at the 1%, 5%, and 10% levels, respectively.

Table 4. Shows VIF of the Variables.

Variables	VIF	I/VIF
big_4	1.09	0.919166
j_audit	1.24	0.809351
aud_ten	1.48	0.675311
aud_fchange	1.07	0.930276
aud_fee	1.09	0.918535
f_size	1.80	0.554539
lev	1.84	0.544445
roa	1.39	0.718462
age	1.23	0.813842
b_size	1.56	0.642427
b_ind	1.39	0.719580
b_fem	1.16	0.863769
Mean VIF	1.48	

The Variance Inflation Factor (VIF) values for the independent variables are shown in the table together with the corresponding tolerance levels (1/VIF). The VIF values, ranging from 1.07 to 1.84 with a mean of 1.48, indicate low multicollinearity among the variables. Aud_fchange (1.07) and Big_4 (1.09) has the lowest VIF values, while Lev (1.84) and f_size (1.80) have the highest. Since all VIFs are much below the usual cutoff of 10 (and even 5), there are no significant multicollinearity problems. Multicollinearity is not a problem, as evidenced by the tolerance values, which range from 0.544 to 0.930 and are all comfortably above the model's minimum acceptable level of 0.10.

To test for autocorrelation in the variables, we used the Wooldridge panel-data test.

H0: no first-order autocorrelation

$$F(1, 67) = 4.312$$

$$\text{Prob} > F = 0.0417$$

P-value less than 0.05 implies the existence of autocorrelation

As there has autocorrelation problem we have done another test to find out the influence of autocorrelation limit. Without this problem our result showed same significant with baseline. But we see that their also has a problem that shown by "p" value is less than 4%. We have done another test 'Heteroscedasticity test'.

Heteroscedasticity

Modified Wald test for groupwise heteroscedasticity in fixed effect regression model

$$H0: \text{sigma}(i)^2 = \text{sigma}^2 \text{ for all } i$$

chi2 (68) = 7010.94

Prob > chi2 = 0.0000

P-value less than 0.05 implies the existence of heteroscedasticity.

After doing "heteroscedasticity test" and we found same result with our basement regression. But there has also shown a problem e.g. P-value is less than 5%. So, we did FGLS and PCS.

Table 5. Robust Regression Addressing Heteroscedasticity, Autocorrelation and Cross-sectional Dependence.

Variables	Feasible Generalized Least Square (FGLS)	Panel Correlated Standard Errors (PCS)
	(1) Stock Returns	**(2) Stock Returns**
big_4	0.184***	0.254***
	(0.0300)	(0.0537)
j_audit	0.347***	0.361***
	(0.0370)	(0.0932)
aud_ten	0.182***	0.173***
	(0.0332)	0.0740
aud_fchange	0.0245	0.0233
	(0.0242)	(0.0538)
aud_fee	0.00626	0.0175
	(0.0136)	(0.0176)
f_size	0.0403***	0.0352*
	(0.0128)	(0.0190)
lev	0.0804	-0.0562
	(0.0946)	(0.208)
roa	0.00179	0.00420
	(0.00291)	(0.00702)
age	-0.0659*	-0.0435
	(0.0350)	(0.0625)
b_size	0.00998*	0.00886
	(0.00588)	(0.00864)
b_ind	0.0258	0.00766
	(0.0216)	(0.0370)
b_fem	-0.0196	-0.0463
	(0.0151)	(0.0293)
year effect	yes	yes
constant	-0.375	-0.131
	(0.196)	(0.369)
observations	408	408
r_squared		0.249
number of ID	68	68

Table 5 presents regression results for stock returns estimated using Feasible Generalized Least Squares (FGLS) and Panel-Corrected Standard Errors (PCSE). Across both models, big_4, j_audit, and aud_ten exhibit positive and statistically significant coefficients, indicating that higher audit quality, joint audits, and longer audit tenure are associated with improved stock returns. Firm size is also positive and significant in both estimations, although weaker under PCSE. In contrast, audit firm change, audit fees, leverage, profitability, board independence, and female board representation are not statistically significant. Firm age and board size are weakly significant only under FGLS. Year effects are included, and the models use 408 observations from 68 firms, with PCSE reporting an R-squared of 0.249.

Table 6. *Endogeneity Issue (Lead-lag Approach).*

VARIABLES	stock returns
f.sr	0.245***
	(0.0561)
big_4	0.178***
	(0.0598)
j_audit	0.334***
	(0.0782)
aud_ten	0.236***
	(0.0670)
aud_fchange	-0.0155
	(0.0590)
aud_fee	0.0511
	(0.0327)
f_size	0.0264
	(0.0212)
lev	-0.103
	(0.140)
roa	-0.00440
	(0.00469)
age	-0.0621
	(0.0457)
b_size	0.00500
	(0.00769)
b_ind	-0.00768
	(0.0302)
b_fem	-0.0170
	(0.0233)
year_effect	YES
constant	-0.0850
	(0.277)
observations	340
r-squared	0.267

Table 6 reports regression results examining the impact of audit- and firm-related characteristics on stock returns. The results show that f.sr (0.245, p<0.01), big_4 (0.178, p<0.01), j_audit (0.334, p<0.01), and aud_ten (0.236, p<0.01) have positive and statistically significant effects on stock returns, indicating that these variables are associated with higher returns. In contrast, aud_fchange, aud_fee, f_size, lev, roa_w, age, b_size, b_ind, and b_fem are statistically insignificant. Although leverage and age show negative coefficients, they are not significant. Year effects are included to control for time-specific influences. The model is based on 340 observations and explains approximately 26.7% of the variation in stock returns (R^2= 0.267). After accounting for endogeneity, we still found that the regression results are similar to our “baseline regression”.

5. Conclusion

Prior research demonstrates a positive correlation between audit quality and stock returns as measured by earnings quality. This study aims to investigate the effects of external statutory audit characteristics on stock return. This research is based on the top 68 DSE-listed firms by market capitalization. We used ordinary least squares regression in STATA to analyze the data. We used the ordinary least squares regression technique to analyze the data. statutory audit attributes, such as the Big 4, joint audits and audit tenure, have a positive impact on stock returns.

This paper uses brand name as a proxy for audit quality and explores the effects of earnings and book value of equity audited by Big 4 and non-Big 4 audit firms; company audited at least by two audit firm at the same accounting period i.e. joint audit; effect of audit tenure (number of years a company audited by an audit firm; audit firm change and audit fee on stock returns. Major results show that companies audited by Big 4 auditors, affiliated audit firms, more than 01 firms in the same accounting period, or the same firm or firms for more than 1 year at a time, can increase stock returns.

The results suggest the effectiveness of audit quality provided by Big 4 audit firms. Another suggestion is to assign at least two audit firms to audit the company simultaneously.

Another suggestion is to select a firm to audit at least two accounting periods. joint audit, as the audited financial statements provide information more relevant to firm value and can better explain changes in stock returns, and so are more useful in predicting the future value of the firm. Future research may consider using industry specialization as a measure of audit quality. Industry-specialized auditors may increase the usefulness of representative accounting information. Future research may further consider the relation between audit quality and stock price predictability.

The results of the study assist policymakers, regulators, and the government to formulate policy by emphasizing statutory audit characteristics such as audit firms affiliated with Big 4 firms, joint audits, and audit tenure. This research helps investors decide which firms to invest in. The study findings would also help the analysts in predicting a firm's stock returns by analyzing statutory audit characteristics.

Abbreviations

DSE	Dhaka Stock Exchange
CSE	Chittagong Stock Exchange
ROA	Return on Assets
ROE	Return on Equity
BB	Big 4 Affiliated Firms
BS	Non-big 4 Firms
FGLS	Feasible Generalized Least Squares
PCSE	Panel-Corrected Standard Errors

Author Contributions

Mohammad Shamsus Sadekin: Conceptualization, Methodology, Investigation, Data curation, Formal Analysis, Writing – original draft

Syed Zabid Hossain: Supervision, Funding acquisition, Project administration, Resources, Software, Supervision, Validation, Visualization, Writing – review & editing

Conflicts of Interest

The authors declare no conflicts of Interest.

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