The moderating role of audit quality on the relationship between audit committee characteristics and firm performance: evidence from an emerging economy

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Abstract

Purpose – This study aims to investigate the moderating role of audit quality on the relationship between audit committee characteristics and firm performance in Bangladesh's emerging economy.

Design/methodology/approach – Using a sample of DS30 Index companies from 2017 to 2023, the study examines how audit quality influences the effectiveness of audit committee size, independence, expertise and meeting frequency in enhancing firm performance. The results are based on pooled ordinary least squares regression analysis.

Findings – The results reveal that audit quality positively moderates the relationship between audit committee size and independence with firm performance, measured by both return on assets and earnings per share. However, audit quality shows no significant moderating effect on the relationship between audit committee expertise and firm performance, while it negatively moderates the impact of meeting frequency. These findings suggest that high-quality auditors enhance the effectiveness of certain audit committee characteristics while potentially creating over-monitoring costs when combined with frequent committee meetings.

Research limitations/implications – The study contributes to the corporate governance literature by providing evidence from an emerging market context and offers important implications for policymakers and practitioners in designing effective governance mechanisms. The findings suggest the need for a more nuanced approach to corporate governance that considers the interactive effects between internal and external monitoring mechanisms.

Originality/value – The study contributes to the corporate governance literature by providing evidence from an emerging market context, specifically examining the moderating role of audit quality on audit committee characteristics in Bangladesh.

Keywords Audit quality, Audit committee characteristics, Firm performance, DS30 index, Corporate governance, Moderating role of audit quality

Introduction

In the contemporary business landscape, corporate governance has emerged as a pivotal concept, serving as a framework for effective management and oversight of organizations. At

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the core of this framework lies the audit committee, a crucial component that plays a vital role in ensuring transparency, accountability, and robust financial reporting practices (Abbott *et al.*, 2016). The audit committee's responsibilities encompass overseeing the integrity of financial statements, monitoring internal control systems, and maintaining an effective relationship with external auditors (Abdullah *et al.*, 2018). Recognizing the significance of these responsibilities, numerous studies have investigated the impact of audit committee characteristics, such as size, independence, expertise, and diligence, on firm performance, yielding diverse and often conflicting findings (Altin, 2024).

However, the effectiveness of audit committees is not solely determined by their inherent characteristics but is also influenced by the quality of the external auditors they engage with (Al-ahdal and Hashim, 2022). The audit quality, often associated with the reputation and expertise of the auditing firm, can play a crucial role in moderating the impact of audit committee characteristics on firm performance (Mardessi, 2021). In Bangladesh, where corporate governance practices have been subject to scrutiny and criticism (Rashid, 2018), examining the interplay between audit committee characteristics, audit quality, and firm performance is paramount.

The motivation for this research stems from the growing recognition of the pivotal role that corporate governance mechanisms, particularly audit committees and audit quality, play in enhancing firm performance and fostering transparency in financial reporting. As emerging economies strive to strengthen their capital markets and attract domestic and international investments, it is imperative to examine the effectiveness of these governance mechanisms in their specific contexts (Khan *et al.*, 2013). While extensive research has been conducted on these relationships in developed economies (Almaqtari *et al.*, 2024; Singhania and Panda, 2024), far less attention has been given to emerging markets like Bangladesh, where institutional frameworks, regulatory environments, and market dynamics differ significantly from their developed counterparts (Sobhan *et al.*, 2024). In countries such as the US and UK, audit committees operate under comprehensive legal regimes (e.g., Sarbanes–Oxley Act 2002, UK Corporate Governance Code), robust enforcement, and dispersed ownership structures. Unlike developed economies, Bangladesh adheres to the Corporate Governance Guidelines (2018) issued by the Bangladesh Securities and Exchange Commission (BSEC), which mandate that every company's audit committee must consist of a minimum of three members, the majority being independent directors, and include at least one individual possessing financial expertise. Enforcement is relatively weaker, ownership is often concentrated in family or sponsor groups, and investor activism is limited (Uddin and Choudhury, 2018; Khan *et al.*, 2013). These institutional features may alter how audit committee attributes influence firm performance and are also observed in other emerging economies such as Sri Lanka, Pakistan, and Vietnam, making the Bangladeshi experience relevant beyond its borders. Bangladesh, as an emerging economy, presents a compelling case for this study. Despite the country's remarkable economic growth and development in recent years, concerns have been raised regarding the state of corporate governance practices and the effectiveness of audit committees (Rashid, 2018). The study will provide insight into the corporate governance procedures of the most well-known and significant corporations in the Bangladeshi capital market by concentrating on the DS30 Index, which consists of the top 30 companies listed on the Dhaka Stock Exchange (DSE). These companies collectively represent around 51% of the total market capitalization (Dhaka Stock Exchange, 2023), underscoring their significance in shaping the country's economic landscape and attracting foreign investments. Therefore, examining how audit quality influences the relationship between audit committee characteristics and firm performance among DS30 Index companies is essential, since the performance of these leading firms carries significant implications for investors, regulatory bodies, and the broader national economy.

Despite the growing body of literature on audit committee characteristics and firm performance, there remains a dearth of empirical studies specifically focused on the Bangladeshi context, particularly within the DS30 Index. Moreover, existing research has primarily concentrated on the direct effects of audit committee characteristics on firm performance, overlooking the potential moderating role of audit quality (Gaynor *et al*., 2016). While studies in developed economies have explored various aspects of audit committee effectiveness (Salehi *et al*., 2021; Singhania and Panda, 2024), the unique institutional and regulatory environment of emerging economies like Bangladesh necessitates context-specific investigations. This gap in the literature highlights the need for a comprehensive investigation that examines how audit quality alters the relationship between certain audit committee characteristics and company success. Unlike previous studies that have examined either direct relationships or considered different moderating variables (Ghazi H Sulimany, 2024), this study uniquely contributes to the literature by investigating the specific moderating role of audit quality in the Bangladesh context, providing valuable insights into how external monitoring mechanisms interact with internal governance structures in an emerging economy setting. This research represents the first attempt to explore this moderating relationship within a developing economy context, as prior studies have not specifically examined how audit quality moderates the influence of audit committee characteristics on firm performance.

The significance of this study lies in its potential to advance our understanding of corporate governance mechanisms in emerging economies, where institutional voids and regulatory challenges often impede the effectiveness of conventional governance practices (Sobhan *et al*., 2024). By examining the moderating role of audit quality, this study moves beyond the traditional direct-effects approach and provides a more nuanced understanding of the complex interplay between internal and external governance mechanisms in the Bangladeshi context.

The present study seeks to address this gap by examining the extent to which audit quality influences the relationship between audit committee attributes—namely size, independence, expertise, and meeting frequency—and corporate performance among firms listed on Bangladesh's DS30 Index. The specific objectives of the study are to: (1) examine the relationship between audit committee characteristics and firm performance; (2) ascertain whether audit quality moderates this relationship; and (3) explore potential mechanisms through which audit committee characteristics and audit quality simultaneously impact firm performance.

The study will address the following research questions:

RQ1. How does audit quality moderate the impact of audit committee size on firm performance?

RQ2. How does audit quality moderate the impact of audit committee independence on firm performance?

RQ3. How does audit quality moderate the impact of audit committee expertise on firm performance?

RQ4. How does audit quality moderate the impact of audit committee diligence (proxied by the number of meetings) on firm performance?

By addressing these objectives and research questions, the study will contribute to the existing body of knowledge on corporate governance, audit committee effectiveness, and the role of audit quality in several ways. First, it will provide empirical evidence on the impact of audit committee characteristics on firm performance within the Bangladeshi capital market, shedding light on the current state of corporate governance practices and their implications for firm performance (Rashid, 2018; Khan *et al*., 2013). Second, by investigating the moderating role of audit quality, the study will offer insights into the potential synergistic effects of audit committee characteristics and audit quality, thereby enhancing our understanding of the dynamics underlying their relationship (Almaqtari *et al*., 2024; Singhania and Panda, 2024). Third, by focusing on an emerging economy like Bangladesh, this study extends the predominantly developed-market-focused literature to a context where governance mechanisms may operate differently due to unique institutional and regulatory environments

(Uddin and Choudhury, 2018; Sobhan *et al*., 2024). Finally, by examining the potential ways that audit committee features and audit quality interact to affect business performance, the study will contribute to the theoretical underpinnings of corporate governance and auditing. Policymakers, regulators, business executives, and auditing companies in Bangladesh will also benefit from the practical insights derived from the findings.

The paper is structured as follows: Section 2 reviews relevant literature and develops the study's hypotheses; Section 3 outlines the data, variables, and methodology; Section 4 presents and discusses the empirical results; and Section 5 concludes with key findings, policy implications, and directions for future research.

Literature review and hypothesis

Theoretical framework

The relationship between audit committee characteristics and firm performance is underpinned by agency theory (Jensen and Meckling, 1976) and resource dependence theory (Pfeffer and Salancik, 1978). As outlined by agency theory, managers often tend to pursue their personal interests rather than focusing on maximizing shareholder wealth, thereby generating an inherent conflict of interest between the principals (shareholders) and their agents (managers). An effective audit committee with appropriate size, independence, expertise, and diligence can enhance oversight and monitoring of management, mitigating agency problems. Specifically, an audit committee with these characteristics can reduce agency costs, align managers' interests with shareholders, improve financial reporting quality and decision-making, and ultimately, enhance firm performance (Bansal and Sharma, 2016).

Resource Dependence Theory suggests organizations rely on resources like expertise, information, and advice to achieve goals and improve performance. An audit committee with diverse expertise, industry experience, and frequent meetings can offer valuable resources to management. This includes insights for effective oversight, risk management, strategic decision-making, and timely guidance, thereby contributing to better firm performance (Zhou *et al*., 2018).

It is anticipated that audit quality serves as a moderating factor in the relationship between audit committee characteristics and firm performance. The moderating effect of audit quality operates through different mechanisms that may vary across audit committee characteristics. From an agency theory perspective, high-quality auditors strengthen monitoring mechanisms by reducing information asymmetry between principals and agents (Gebrayel *et al*., 2018). This enhances the committee's ability to mitigate agency problems and improve performance.

Additionally, drawing from resource dependence theory, high audit quality offers industry-specific expertise as a valuable resource complementing the committee's knowledge and advisory role (Cohen *et al*., 2010). Better decision-making and increased company success may result from this. In conclusion, strong audit committee traits and excellent audit quality may work together to increase monitoring and advisory functions, which in turn can boost company performance.

Corporate governance in Bangladesh

In Bangladesh, corporate governance practices are mainly regulated by the Corporate Governance Code of the Bangladesh Securities and Exchange Commission (BSEC), last updated in 2018. The Code stipulates that every listed company must form an audit committee under its board of directors, comprising a minimum of three members, the majority of whom should be independent, and at least one member must have professional expertise in accounting or finance. Additionally, the committee is required to convene a minimum of four times each year to supervise financial reporting, evaluate internal control systems, and maintain communication with external auditors. Despite these provisions, enforcement remains relatively weak, ownership is frequently concentrated in family or sponsor groups, and investor activism is limited (Uddin and Choudhury, 2018; Rashid, 2018; Khan *et al.*, 2013; Goranova, 2025). These institutional characteristics, along with evolving capital market regulations, shape how governance mechanisms operate in practice and set Bangladesh apart from developed economies.

Audit committee characteristics and firm performance

Numerous studies have examined the relationship between audit committee characteristics and firm performance, with mixed findings. For instance, Pathiraja *et al*. (2023) found a positive relationship between audit committee size, interlock of directors, and risk management committee with firm performance in Sri Lanka, yet reported no significant relationship between committee independence, financial expertise, diversification, and meeting frequency with performance. In Jordan, Almonani *et al*. (2023) found committee meeting frequency and independence positively influence firm performance, while committee size showed no significant relationship. Conversely, Al-Jalahma (2022) reported negative relationships between committee independence and size with performance in Bahrain, with meeting frequency showing no impact.

Recent research provides additional context across different governance environments. Sobhan *et al*. (2024) found committee size, gender diversity, and expertise negatively associated with audit report lag in Bangladesh, suggesting more effective monitoring. Singhania and Panda (2024) demonstrated how industry knowledge intensity moderates the relationship between committee effectiveness and firm performance, highlighting the contextual nature of governance mechanisms. In Iran, Salehi *et al*. (2021) examined how committee characteristics affect financial restatements, while Salehi and Soorestani (2019) found board independence and committee authority significantly related to audit fees but not internal control weaknesses.

In the Malaysian context, Kallamu and Saat (2015) revealed committee composition and director interlocks show significance after governance code implementation, with other attributes having no significant influence on performance metrics. For Nigerian banks, Ogbodo and Akabuogu (2018) found committee independence significantly affects return on equity, while committee size impacts profit margin. Agrawal and Cooper (2017) similarly reported significant associations between committee characteristics and firm performance in Jordan, reinforcing the importance of committee composition across different markets.

Audit quality and firm performance

Several studies have investigated the impact of audit quality on firm performance, with varied results. Iliemena *et al*. (2019) and Bansal (2025) found audit firm rotation and fees positively affect return on assets, while Rahman *et al*. (2019) reported significant positive associations between external audit quality (Big 4 auditors) and firm performance in emerging economies. Expanding on these relationships, Almaqtari *et al*. (2024) examined how board independence changes moderate the relationship between board characteristics and audit quality, supporting the investigation of interconnected governance mechanisms rather than isolated variables.

Phan *et al*. (2019) revealed that audit quality positively impacts financial performance, customer loyalty, and employee satisfaction in companies listed on the Hanoi Stock Exchange. Zraiq and Fadzil (2018) found that audit committee size has a positive and significant impact on earnings per share (EPS) in Jordan, while its impact on ROA is positive but insignificant. Ani and Mohammed (2015) reported positive correlations between auditor quality (Big 4 status) and both return on equity and market value. Ivungu *et al*. (2019) concluded that audit quality can influence firm performance positively or negatively, depending on the context.

However, Elewa (2019) and Kalita and Tiwari (2025) reported that Big 4 auditors and auditor rotation have an insignificant impact on the ROA and return on equity (ROE) of firms in Egypt. Aldamen *et al*. (2012) also found that smaller audit committees with experienced financial expertise tend to enhance firm performance during the global financial crisis.

Moderating role of audit quality on audit committee size

Several studies have examined the relationship between audit committee size and firm performance, with mixed findings. For instance, Ogbodo and Akabuogu (2018) found that audit committee size has a significant effect on the profit margin of quoted Nigerian banks, while Rahman *et al.* (2019) reported a significant positive association between audit committee size and firm performance in an emerging economy. However, Almonani *et al.* (2023) and Al-Jalahma (2022) found no significant relationship between audit committee size and firm performance in Jordan and Bahrain, respectively.

These inconsistent findings suggest the presence of potential moderating factors that could influence the relationship between audit committee size and firm performance. One such factor is audit quality, as high audit quality can enhance the effectiveness of the audit committee in monitoring management's actions and ensuring the reliability of financial reporting (Obeitoh *et al.*, 2023; DeZoort *et al.*, 2002).

Empirical evidence supports the moderating role of audit quality in governance relationships. Wong *et al.* (2020) found external audit quality moderates the relationship between corporate governance attributes and business performance in Malaysia. Sayyar *et al.* (2015) reported weaker-performing companies demand higher audit quality, resulting in higher audit fees. Similarly, Ghazi H Sulimany (2024) demonstrated how institutional ownership moderates the relationship between audit committee composition and reporting timeliness in Saudi Arabia, supporting the examination of interaction effects between governance mechanisms rather than studying them in isolation. This study contributes to the existing literature by investigating the moderating effect of audit quality on the relationship between audit committee size and firm performance in the context of Bangladesh, thereby addressing a critical gap in empirical research.

The resource dependence theory, which highlights the importance of resources provided by certified auditors, and the agency theory, which underlines the need of effective monitoring procedures, serve as the foundation for the following hypothesis:

H1. Audit quality positively moderates the impact of audit committee size on firm performance.

Moderating role of audit quality on audit committee independence

The literature presents mixed findings on the relationship between audit committee independence and firm performance. For instance, Almonani *et al.* (2023) found that audit committee independence significantly and positively influences firm performance in Jordan, while Al-Jalahma (2022) reported a negative relationship between audit committee independence and firm performance in Bahrain.

These contradictory results point to the existence of possible moderating factors that can affect the association between business success and audit committee independence. One such factor is audit quality, as high audit quality can enhance the effectiveness of an independent audit committee in monitoring management's actions and ensuring the reliability of financial reporting (DeZoort *et al.*, 2002; Babalola *et al.*, 2025).

Empirical evidence supports the moderating role of audit quality in this relationship. For instance, Abbott *et al.* (2004) found that audit committee independence is associated with higher quality financial reporting, but this relationship is stronger when the auditor is an industry specialist. Barka and Legendre (2016) also reported that while board independence is associated with improved firm performance, an independent audit committee that meets frequently is associated with lower firm performance, suggesting the potential moderating role of audit quality.

Based on the agency theory, which emphasizes the importance of effective monitoring mechanisms, it is hypothesized that:

H2. Audit quality positively moderates the impact of audit committee independence on firm performance.

Moderating role of audit quality on audit committee expertise

Numerous studies have looked at the connection between business performance and audit committee expertise, with varying degrees of success. For instance, Abbott *et al*. (2004) and Glover and Asunka (2021) found that audit committee financial expertise is positively associated with higher-quality financial reporting. However, Barka and Legendre (2016) reported no significant relationship between audit committee expertise and firm performance.

These varying results imply that certain moderating factors may play a role in shaping the relationship between audit committee expertise and firm performance. One such factor is audit quality, as high audit quality can complement the expertise of the audit committee and enhance the effectiveness of their monitoring and advisory roles (DeZoort *et al*., 2002).

Empirical evidence supports the moderating role of audit quality in this relationship. For instance, Abbott *et al*. (2016) found that the positive impact of audit committee financial expertise on earnings quality is stronger when the auditor is an industry specialist. Abbott *et al*. (2015) also reported that audit committee members are more likely to recommend an industry specialist auditor when they have greater financial expertise.

Based on the resource dependence theory, which highlights the value of resources provided by competent auditors, and the signalling theory, which suggests that high audit quality signals a firm’s commitment to transparency, it is hypothesized that:

H3. Audit quality positively moderates the impact of audit committee expertise on firm performance

Moderating role of audit quality on audit committee meetings

Numerous studies have investigated the link between audit committee diligence, often measured by the frequency of meetings, and firm performance, yielding inconsistent results. For instance, Almonani *et al*. (2023) found that audit committee meeting frequency positively influences firm performance in Jordan, while Al-Jalahma (2022) reported no significant relationship between audit committee meetings and firm performance in Bahrain.

These inconsistent findings suggest the presence of potential moderating factors that could influence the relationship between audit committee diligence and firm performance. One such factor is audit quality, as high audit quality can enhance the effectiveness of an audit committee’s monitoring and advisory roles, thereby increasing the value of their diligence in meeting frequently (DeZoort *et al*., 2002).

Empirical evidence supports the moderating role of audit quality in this relationship. For instance, Rahman *et al*. (2019) found a significant negative relationship between audit committee meeting frequency and firm performance, suggesting that audit quality may play a moderating role in this relationship. Barka and Legendre (2016) also reported that an audit committee that meets frequently is associated with lower firm performance, potentially due to the moderating role of audit quality.

Drawing on agency theory, which underscores the significance of robust monitoring mechanisms, and resource dependence theory, which stresses the benefits of resources contributed by skilled auditors, it is hypothesized that:

H4. Audit quality positively moderates the impact of audit committee meetings on firm performance.

Given the contradictory findings in the literature about the relationship between audit committee characteristics, audit quality, and company success, it is necessary to look at moderating factors like audit quality. While audit quality is well-studied as a performance determinant, its role as a moderator in these relationships remains underexplored. Existing research primarily focuses on developed or larger emerging markets (Almaqtari *et al.*, 2024; Singhania and Panda, 2024), with limited studies in Bangladesh, despite its evolving governance practices and growing capital market. Recent studies by Sobhan *et al*. (2024) in Bangladesh and Salehi *et al*. (2021) in Iran have begun to explore various aspects of audit committee effectiveness in emerging economies, but they do not specifically address the moderating role of audit quality on firm performance. This study closes these gaps and provides valuable new insights into corporate governance and audit practices in developing countries by investigating the ways in which audit quality affects the relationship between key audit committee attributes and company success as determined by the DS30 Index.

Methodology

Sample size and data collection

The sample for this study comprises companies listed on the DS30 Index of the Dhaka Stock Exchange (DSE) from 2017 to 2023. The DS30 Index was specifically selected as it represents the top 30 companies by market capitalization and trading volume, collectively accounting for approximately 51% of the total market capitalization of the Bangladeshi stock market (Dhaka Stock Exchange, 2023). These companies are characterized by higher liquidity, broader analyst coverage, and greater foreign investor interest, making them particularly relevant for examining corporate governance mechanisms in an emerging economy context. Additionally, these firms typically demonstrate more advanced corporate governance practices and are more likely to employ high-quality auditors, providing sufficient variation in our key variables of interest (Sunny and Hoque, 2025). So, the sample size is 210 firm-year observations. The data is collected from multiple sources, including annual reports, financial statements, and corporate governance reports of the DS30 companies. These sources provide reliable and audited information necessary for the analysis.

Empirical model and variable definition

The study employed pooled OLS regression analysis to examine the moderating effect of audit quality on the impact of audit committee characteristics on company performance. While acknowledging the potential limitations of OLS regarding unobserved heterogeneity and time effects, this method was selected due to its ability to effectively capture the interaction effects that are central to our research questions. We conducted Hausman tests to determine whether fixed or random effects models would be more appropriate, but the results favoured the pooled OLS approach given our research design and sample characteristics. Additionally, diagnostic tests were performed to address potential estimation issues, including tests for multicollinearity and heteroscedasticity.

Earnings per share (EPS) and return on assets (ROA) are two proxies used to evaluate the success of the firm, which is one of the dependent variables. The independent variables are the audit committee's size, independence, meeting frequency, and level of expertise. The moderating variable is audit quality, which is proxied by a dummy variable indicating whether the company is audited by a Big 4 affiliated auditing firm (KPMG, PwC, Deloitte, or EY). This proxy is widely used in the literature and is particularly appropriate in the Bangladeshi context, where Big 4 affiliation signals substantially higher quality assurance compared to local audit firms due to their international standards, better training, greater independence, and reputation concerns (Rahman *et al.*, 2019; Salehi *et al.*, 2021). Control variables include firm size, firm age, audit committee meeting frequency, and leverage, as these respectively capture resource availability and economies of scale, accumulated experience and market position, the extent of financial oversight, and financial risk influencing performance (Sunny and Hoque, 2025). The following regression models are estimated:

$$ROA = \beta 0 + \beta 1\, ACSIZE + \beta 2\, ACIND + \beta 3\, ACEXPERT + \beta 4\, ACMEET + \beta 5\, FAGE + \beta 6\, FSIZE + \beta 7\, LEV + \varepsilon \quad \text{(Model 1a)}$$

$$EPS = \beta 0 + \beta 1\, ACSIZE + \beta 2\, ACIND + \beta 3\, ACEXPERT + \beta 4\, ACMEET + \beta 5\, FAGE + \beta 6\, FSIZE + \beta 7\, LEV + \varepsilon \quad \text{(Model 1b)}$$

$$ROA = \beta 0 + \beta 1\, ACSIZE * BIG4 + \beta 2\, ACIND * BIG4 + \beta 3\, ACEXPERT * BIG4 + \beta 4\, ACMEET * BIG4 + \beta 5\, FAGE + \beta 6\, FSIZE + \beta 7\, LEV + \varepsilon \quad \text{(Model 2a)}$$

$$EPS = \beta 0 + \beta 1\, ACSIZE * BIG4 + \beta 2\, ACIND * BIG4 + \beta 3\, ACEXPERT * BIG4 + \beta 4\, ACMEET * BIG4 + \beta 5\, FAGE + \beta 6\, FSIZE + \beta 7\, LEV + \varepsilon \quad \text{(Model 2b)}$$

In Model (1a) and Model (1b), the direct effects of audit committee characteristics on firm performance are examined. Model (2a) and Model (2b) incorporate the interaction terms between audit committee characteristics and audit quality to assess the moderating effect of audit quality on the relationship between audit committee characteristics and firm performance.

The regression analyses is conducted using STATA software, and appropriate diagnostic tests has been performed to ensure the validity of the models and the robustness of the results. Table 1 provides the summary of the variables used in the regression models.

Results and discussion

Descriptive statistics

Table 2 presents the descriptive statistics for all variables used in this study. The mean ROA is 7.22% with a standard deviation of 9.15%, while the mean EPS is 11.00 with a standard

Table 1. Summary of variables

Variable type	Variable	Description	Measurement
Dependent Variables	ROA	Return on Assets	Net Income/Total Assets
	EPS	Earnings Per Share	Net Income/Number of Outstanding Shares
Independent Variables	ACSIZE	Audit Committee Size	Number of members on the audit committee
	ACIND	Audit Committee Independence	Percentage of independent directors on the audit committee
	ACEXPERT	Audit Committee Expertise	Percentage of audit committee members with financial or accounting expertise
	ACMEET	Audit Committee Diligence	Frequency of audit committee meetings held during the fiscal year
Moderating Variable	BIG4	Audit Quality	Dummy variable: 1 if audited by a Big Four affiliated firm, 0 otherwise
Control Variables	FSIZE	Firm Size	Natural logarithm of total assets
	FAGE	Firm Age	Number of years since establishment
	LEV	Leverage	Total Debt/Total Assets

Table 2. Descriptive statistics

Variable	Obs	Mean	Std. Dev	Min	Max
ROA	210	7.22014	9.15357	−2.52	53.65
EPS	210	11.0048	17.6992	−4.13	122.9
ACSIZE	210	3.70952	0.86196	3	7
ACIND	210	39.6639	15.4804	14.29	75
ACEXPERT	210	35.9016	14.7415	14.29	80
ACMEET	210	5.26191	2.11012	4	12
BIG4	210	0.3619	0.4817	0	1
FAGE	210	37.1	25.7731	8	149
FSIZE (In Million)	210	123,753	283,796	942.78	2,032,331
LEV	210	0.53424	0.2207	0.04	0.89

Note(s): All values are presented as raw values, not natural logarithm

deviation of 17.70, indicating considerable variation in firm performance across the sample. The average audit committee size is approximately 4 members (mean = 3.71), which aligns with the regulatory requirement in Bangladesh. The mean percentage of independent directors on audit committees is 39.66%, while the average proportion of members with financial expertise is 35.90%. Audit committees meet approximately 5 times per year on average (mean = 5.26), suggesting regular oversight of financial reporting processes. Approximately 36.19% of the sample firms are audited by Big 4 affiliated audit firms, indicating that high-quality auditors have a significant presence in the Bangladesh market, particularly among the DS30 Index companies.

Correlation analysis

The correlation matrix presented in Table 3 reveals several significant relationships between variables. Notably, there is no correlation coefficient exceeding 0.80, suggesting the absence of severe multicollinearity (Hair *et al.*, 2009). Firm size (FSIZE) shows moderate positive correlations with audit committee meetings ($r = 0.5524$) and leverage ($r = 0.5121$), indicating that larger firms tend to have more frequent audit committee meetings and higher leverage ratios. Audit committee independence (ACIND) and expertise (ACEXPERT) show a modest positive correlation ($r = 0.3095$), suggesting that firms with more independent audit committees also tend to have more financial experts.

Multicollinearity test

The variance inflation factor (VIF) test results in Table 4 indicate that multicollinearity is not a concern in our analysis. All VIF values are well below the critical threshold of 5 (Hair *et al.*,

Table 3. Correlation matrix

	ACSIZE	ACIND	ACEXPERT	ACMEET	FAGE	FSIZE	LEV
ACSIZE	1.0000						
ACIND	−0.2504	1.0000					
ACEXPERT	−0.2891	0.3095	1.0000				
ACMEET	0.1183	0.3248	0.1004	1.0000			
FAGE	0.3524	−0.1501	−0.1099	0.0314	1.0000		
FSIZE	0.2405	0.0854	−0.0136	0.5524	0.2982	1.0000	
LEV	0.2477	0.0985	0.0623	0.4046	−0.0738	0.5121	1.0000

Table 4. Multicollinearity test

Variable	VIF	1/VIF
ACSIZE	2.02	0.494611
ACIND	1.69	0.592977
ACEXPERT	1.62	0.618402
ACMEET	1.43	0.699343
FAGE	1.39	0.718112
FSIZE	1.31	0.765296
LEV	1.19	0.843276
Mean VIF	*1.52*	

2009), with the highest VIF being 2.02 for audit committee size. The mean VIF of 1.52 further confirms the absence of significant multicollinearity among the independent variables.

Heteroscedasticity test

The Breusch-Pagan/Cook-Weisberg test results in Table 5 indicate the presence of heteroscedasticity in all four models ($p < 0.01$). To address this issue, we employed robust regression techniques using White's heteroscedasticity-consistent standard errors (White, 1980) for all models, ensuring reliable statistical inference.

Regression results

Direct effects of audit committee characteristics on firm performance. Model 1a and Model 1b, in Table 6, examine the direct effects of audit committee characteristics on firm performance measured by ROA and EPS, respectively. Models 1a and 1b explain 29.53% and 18.86% of the variation in ROA and EPS respectively, as indicated by their R-squared values. While these explanatory powers might appear moderate, they are consistent with similar corporate governance studies in emerging markets (Al-Matari *et al.*, 2014; Rashid, 2018).

Audit committee size demonstrates a significant positive relationship with both ROA ($\beta = 4.405$, $p < 0.01$) and EPS ($\beta = 6.707$, $p < 0.05$). This finding strongly supports the resource dependence theory perspective that larger audit committees provide better monitoring and advisory capabilities through diverse expertise and broader networks (Pfeffer and Salancik, 1978). Larger audit committees in Bangladesh likely benefit from a broader range of expertise and perspectives, enabling more effective oversight of financial reporting processes (Al-Matari *et al.*, 2014). Additionally, in the context of an emerging economy where corporate governance mechanisms are still evolving, larger audit committees may signal stronger commitment to oversight, thereby enhancing stakeholder confidence (Rahman *et al.*, 2019).

Audit committee independence shows a strong positive association with both performance measures (ROA: $\beta = 0.251$, $p < 0.01$; EPS: $\beta = 0.372$, $p < 0.01$). This robust finding aligns

Table 5. Heteroscedasticity test

Test	Model	Model	χ^2	Prob > χ^2	H0 (Null)
Breusch–Pagan/Cook–Weisberg	ROA	1a	149.46	0	Rejected
	ROA	2a	107.02	0	Accepted
	EPS	1b	214.52	0	Rejected
	EPS	2b	192.41	0	Rejected

Table 6. Regression results

Variable	Direct impact Model 1a ROA	Model 1b EPS	Moderating effect Model 2a ROA	Model 2b EPS
ACSIZE	4.40535	6.706796		
p value	0.000***	0.018**		
ACIND	0.250819	0.3723266		
p value	0.000***	0.003***		
ACEXPERT	0.098577	0.1478272		
p value	0.026**	0.101		
ACMEET	−1.317258	−2.632705		
p value	0.000***	0.000***		
ACSIZE * BIG4			3.357096	5.482599
p value			0.000***	0.000***
ACIND * BIG4			0.4255349	0.9216476
p value			0.000***	0.000***
ACEXPERT * BIG4			−0.0759161	−0.158679
p value			0.365	0.333
ACMEET * BIG4			−3.260419	−6.793092
p value			0.000***	0.000***
FAGE	−1.345276	2.366778	0.6364278	6.176742
p value	0.227	0.333	0.454	0.000***
FSIZE	−0.2726288	0.3571598	−1.091818	−1.119996
p value	0.572	0.658	0.007***	0.112
LEV	−7.230933	2.053772	−1.050496	10.55042
p value	0.027**	0.770	0.736	0.096*
constant	−0.6505112	−37.89211	29.56245	7.582748
p value	0.933	0.004***	0.000***	0.500
F Value	8.63	5.08	11.41	8.50
R Squared	29.53	18.86	45.80	40.54
Observation	210	210	210	210

Note(s): *significant at l0% level; **significant at 5% level; ***significant at 1% level

with agency theory's emphasis on independent monitoring (Jensen and Meckling, 1976) and suggests that independent directors in Bangladesh are effectively fulfilling their oversight responsibilities. The effectiveness of independent directors in the Bangladeshi context might be attributed to their ability to resist management pressure in an environment where ownership concentration is high (Muttakin *et al*., 2016). Furthermore, independent directors often bring valuable external connections and reputation capital, which can enhance firm legitimacy and access to resources (Uddin and Choudhury, 2018).

The relationship between audit committee expertise and firm performance shows mixed results, with a significant positive impact on ROA ($\beta = 0.099$, $p < 0.05$) but an insignificant relationship with EPS. The positive impact on ROA supports arguments by Glover and Asunka (2021) that financial experts enhance monitoring effectiveness through their specialized knowledge. The insignificant relationship with EPS might reflect market scepticism about the role of financial expertise in the Bangladeshi context, where the quality and verification of expertise credentials can be challenging (Hassan *et al*., 2017).

The negative relationship between audit committee meeting frequency and both performance measures (ROA: $\beta = -1.317$, $p < 0.01$; EPS: $\beta = -2.633$, $p < 0.01$) presents an interesting contrast to conventional expectations. This finding supports Rahman *et al*. (2019) argument that increased meeting frequency often reflects reactive rather than proactive governance. In the Bangladeshi context, more frequent meetings might indicate underlying business problems or compliance issues requiring additional attention (Kallamu and Saat, 2015). Additionally, the costs associated with frequent meetings, both direct and indirect, might outweigh their benefits in an emerging market context where resources are often constrained (Rahman *et al*., 2019).

Moderating effects of audit quality on the relationship between audit committee characteristics and firm performance. Models 2a and 2b examine the moderating effects of audit quality (BIG4) on the relationship between audit committee characteristics and firm performance. The inclusion of moderating effects substantially improves the models' explanatory power, with R-squared values increasing to 45.80% for ROA (Model 2a) and 40.54% for EPS (Model 2b). This considerable improvement aligns with both agency theory and resource dependence theory, suggesting that high-quality auditors enhance the effectiveness of internal governance mechanisms through improved monitoring and resource provision (Cohen *et al*., 2010; Pfeffer and Salancik, 1978).

The positive moderating effect of audit quality on the relationship between audit committee size and firm performance (ROA: $\beta = 3.357$, $p < 0.01$; EPS: $\beta = 5.483$, $p < 0.01$) provides strong support for H1. This finding indicates that larger audit committees become more effective when paired with high-quality auditors, creating a complementary monitoring mechanism that enhances firm performance. The synergistic effect can be explained by the combination of diverse perspectives from a larger committee with the technical expertise and resources of Big 4 auditors, resulting in more effective monitoring of financial reporting processes (Almaqtari *et al*., 2024). This complementary relationship is particularly important in emerging economies like Bangladesh, where institutional weaknesses may require stronger governance mechanisms to mitigate agency problems. Similar complementary effects have been documented in other emerging markets like Malaysia (Wong *et al*., 2020) and India (Singhania and Panda, 2024), suggesting a consistent pattern across developing economies.

The significant positive moderating effect of audit quality on the relationship between audit committee independence and firm performance (ROA: $\beta = 0.426$, $p < 0.01$; EPS: $\beta = 0.922$, $p < 0.01$) strongly supports H2. This finding reveals that independent directors on audit committees are more effective when supported by high-quality auditors, consistent with both agency theory predictions and empirical evidence from other emerging markets (Almonani *et al*., 2023). The mechanism behind this complementary relationship likely involves improved information flow and greater assurance regarding financial reporting quality, enhancing independent directors' monitoring capabilities. Independent directors often face information asymmetry challenges in emerging markets; high-quality auditors help bridge this gap by providing more reliable information (Salehi *et al*., 2021). The stronger effect on EPS compared to ROA suggests that market participants particularly value this governance synergy, perceiving it as a credible signal of effective oversight.

The insignificant moderating effect of audit quality on the relationship between audit committee expertise and firm performance (H3 not supported) presents an interesting divergence from theoretical expectations. This finding suggests that financial expertise on audit committees and high-quality auditors may function as substitute rather than complementary governance mechanisms in Bangladesh. Both provide similar technical knowledge and monitoring capabilities related to financial reporting, potentially creating redundancy rather than synergy (Hassan *et al*., 2017). This substitution effect contrasts with findings from developed markets but aligns with research from other emerging economies like Saudi Arabia (Ghazi H Sulimany, 2024), suggesting that the institutional context significantly influences how governance mechanisms interact. The resource allocation perspective may also explain this finding—firms investing in both highly qualified audit committee members and premium auditors might be inefficiently allocating governance resources without realizing corresponding performance benefits.

The significant negative moderating effect of audit quality on the relationship between audit committee meetings and firm performance (ROA: $\beta = -3.260$, $p < 0.01$; EPS: $\beta = -6.793$, $p < 0.01$) contradicts H4 but provides critical insights about the costs of over-monitoring. When high meeting frequency is combined with high-quality auditors, the negative impact on firm performance intensifies, suggesting that excessive monitoring creates substantive costs that outweigh potential benefits. These costs may include management time diverted to compliance activities, reduced risk-taking, increased bureaucracy in decision-making processes, and higher direct expenses related to governance activities. This finding aligns with organizational control theory, which suggests that excessive control mechanisms can constrain managerial initiative and innovation (Singh *et al*., 2018). Similar negative effects have been documented in other emerging markets like Bahrain (Al-Jalahma, 2022) and Jordan (Barka and Legendre, 2016), indicating that finding the optimal balance between sufficient monitoring and operational flexibility remains a challenge for emerging economy firms. Table 7 shows the summary of the test of the hypothesis.

To check the robustness of the results, we re-estimated all models using same pooled OLS framework under alternative specifications: (1) excluding financial sector firms, (2) winsorizing all continuous variables at the 1st and 99th percentiles, and (3) removing one control variable at a time. Across these variations, the signs and statistical significance of the main variables and interaction terms remained consistent with the original results, supporting the robustness of our conclusions. Detailed results are not presented in the main text to maintain brevity.

Conclusion

This study provides compelling evidence regarding the moderating role of audit quality on the relationship between audit committee characteristics and firm performance in the context of Bangladesh's emerging economy. The findings reveal several important insights that contribute to both theoretical understanding and practical implications for corporate governance.

The findings reveal that audit quality plays a crucial role in strengthening the positive association between audit committee size and firm performance, implying that larger committees, when paired with high-quality auditors, facilitate more effective oversight. This outcome aligns with resource dependence theory, which posits that the integration of resources and capabilities enhances organizational performance. Likewise, the observed positive moderating impact of audit quality on the link between audit committee independence and firm performance suggests that the effectiveness of independent directors is heightened when supported by competent external auditors.

However, the absence of a significant moderating effect of audit quality on the relationship between audit committee expertise and firm performance, along with the negative moderating effect on meeting frequency, reveals important nuances in the interaction between internal and external monitoring mechanisms. These findings suggest that there may be optimal levels of monitoring beyond which additional oversight becomes counterproductive, particularly in emerging market contexts.

Table 7. Test of hypothesis

Hypothesis	Relationship	Results	Inference
H1	Audit quality moderates audit committee size → firm performance	Significant positive for both ROA and EPS	Supported
H2	Audit quality moderates audit committee independence → firm performance	Significant positive relationship for both ROA and EPS	Supported
H3	Audit quality moderates audit committee expertise → firm performance	Insignificant relationship for both ROA and EPS	Not Supported
H4	Audit quality moderates audit committee meetings → firm performance	Significant negative relationship for both ROA and EPS	Not Supported

For policymakers and regulatory bodies in Bangladesh and similar emerging economies, these findings have several important practical implications. First, corporate governance codes should adopt a more integrated approach that considers the interactive effects between different governance mechanisms rather than treating them as isolated components. Specifically, regulations could encourage proportionate governance structures where firms employing high-quality auditors might have more flexibility in certain internal committee requirements, avoiding costly redundancies and over-monitoring (Salehi *et al.*, 2021).

Second, while maintaining minimum requirements for audit committee size and independence, regulations should allow for contextual flexibility based on firm-specific characteristics, industry dynamics, and the quality of external auditors. This nuanced approach would enable firms to design more efficient governance structures tailored to their specific monitoring needs rather than adopting a one-size-fits-all approach that may create unnecessary compliance burdens (Singhania and Panda, 2024).

Third, governance guidelines should emphasize quality over quantity in audit committee activities, particularly regarding meeting frequency. Currently, there appears to be an implicit assumption that more frequent meetings indicate better governance, but our findings suggest this may not be the case, especially when combined with high-quality auditors. Regulatory emphasis should shift toward the substance and effectiveness of committee activities rather than their frequency (Ogbodo and Akabuogu, 2018).

The study also has implications for the codes of good governance that regulate board compositions and responsibilities. Policymakers should consider implementing differential requirements based on the quality of external auditors, potentially allowing for more streamlined internal governance structures when firms employ high-quality auditors. Additionally, governance codes should emphasize the quality and efficiency of audit committee activities rather than focusing solely on quantitative metrics such as meeting frequency.

Several limitations of this study should be acknowledged. First, the focus on DS30 companies might limit the generalizability of findings to smaller listed companies or non-listed firms. Second, the use of Big 4 affiliation as a proxy for audit quality, while consistent with prior literature, may not capture all dimensions of audit quality. Third, the study period (2017–2023) includes the years impacted by the COVID-19 pandemic; as a result, the findings could be influenced by pandemic-related disruptions, making it challenging to distinguish between typical industry trends and those driven by external shocks. Finally, as is typical in corporate governance–performance research, potential endogeneity (reverse causality and omitted variables) may bias estimates; future research could apply instrumental variables, GMM, or other identification strategies to address this more directly.

Future research could address these limitations by expanding the sample to include a broader range of companies, using alternative measures of audit quality, and employing longer time periods. Additionally, researchers could explore the potential non-linear relationships between governance mechanisms and firm performance, as well as investigate the role of other moderating variables such as ownership structure, board characteristics, and market development. Further studies could also examine how the effectiveness of these governance mechanisms varies across different economic cycles and regulatory regimes. Future studies may apply Bayesian regression or other advanced techniques to further validate the findings.

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