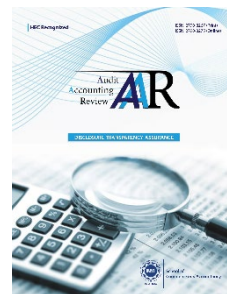
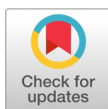


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Quality of Audit and Financial Markets: Evidence from South Asian Economies

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Abstract

We study the impact of Quality of Audit (QA) on Financial Markets (FM) in a group of South Asian Economies (SAEs) using panel dataset collected from World Economic Forum's Global Competitive Index reports from 2006 to 2020. We estimated fixed effect regression as baseline model, and robustness is performed using robust fixed effect, Driscoll Kraay and PCSE, which are capable of correcting standard error issues associated with fixed effect regression. The results document a positive and significant role of QA in boosting FM in our sample. The study findings support the argument that QA may provide accurate and translucent financial reporting, lessen the asymmetry of information, and develop the confidence of investors. Investor confidence builds with transparent information which not only increases the investment opportunities but also increases the liquidity and stability of financial markets of SAEs. Improved QA helps to reduce the incidents of financial frauds and misstatements, and makes financial statements more reliable and trustworthy. Both domestic and international investors rely on audited financial statements, and it helps them make investment decisions, so it is the need of the businesses to enhance audit practices. The study has several limitations including the sample, the period tested, and data source. The results have implications for private and public institutes of SAEs, policymakers, government bodies, and financial institutions of SAEs, to apply for financial development. In our information, this is the foremost study investigating the direct effect of QA on FM in SAEs, and our results are robust across alternative estimators.

Keywords: financial markets, quality of audit, South Asian economies

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