

Organizational Dynamics: Evidence Of Audit Quality, Stock Price Crash Risk, And Board Of Directors In An Emerging Market

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Abstract

This study focuses on the company dynamics through examination of the influence of audit quality on the stock price crash risk (SPCR) of organizations in Pakistan. It also delves into whether the quality of audit of organizations reduces stock price crash risks for the organizations listed on the Pakistan Stock Exchange by reducing the effect of bubble bursts. Thereby attracting significant investments from the shareholders and potential stakeholders. The research employs the agency theory to support the study's framework and focuses on the role of the board of directors that may affect this relationship. The research findings show that the quality of audit of the listed company minimizes the stock price crash risk. When I use board of directors as a moderator on the relationship between audit quality and stock price crash risk, I find that the intervention of the board of directors appears to enhance the stock price crash risk by creating a bubble in the market.

Key words: audit quality, stock price crash risk, board of directors, organizational dynamics

1. INTRODUCTION

Background

In the corporate world, businesses are encircled by several risks, and management tends to put effort into reducing such risks to an acceptable level. One of the many risks businesses encounter is the risk of a stock price crash, i.e., the fall in the value of the market shares (Kinney & Palmrose, 2004). There are diverse reasons that affect a company's stock price. One of the risks is that the bad news is being publicized in the market, which directly impacts the value of the share price in the market (Humedat, 2002). However, what concerns shareholders more is the management's intentions to conceal new and accurate market information ((Al-Twaijry & Elnafabi, 2008). Therefore, the owners of the businesses rely on external auditors (who act as a watchdog for them) to ensure that the information the management publishes is free from all errors and potential misstatements ((Al-Twaijry & Elnafabi, 2008). The shareholders and the interested new investors look forward to the audited financial statements for their financial decisions.

This research scrutinizes the association between audit quality and its impact on the stock price crash risk of the listed firms in Pakistan's stock exchange market (Zare Rafiee et al., 2014). The basis for measurement is the total compensation received by the auditor throughout the audit process, including compensation unrelated to audit fees (Al-Twaijry & Elnafabi, 2008).

The audit of financial statements for listed companies and the impact on the stock price crash risk are essential elements that are crucial not just for the owners but also for the potential stakeholders willing to invest based on the financial statements (Zare Rafiee et al., 2014).

Several studies have examined the impact of audit quality and found it improves reporting efficiency on the forecasted stock price and crash risk (Casterella & Knechel, 2009). Others (Sudsomboon & Ussahawanitchakit, 2009) focus on how audit quality improves the efficiency of financial information. Audit of financial statements assists the regulator in lessening information inconsistency and preserving the interests of the different stakeholders by warranting that the audited financial accounts are free from material misstatements (Macharia & Gatuhi, 2013).

The quality of audited financial information reduces the threats of material misstatements by ensuring financial statements are prepared per pre-set standards. Reduced risks of misstatements increase the confidence of the concerned firms in stock markets, reducing the cost of capital for firms (Hoti et al., 2012). The developers and implementers of international standards tend to increase the usefulness of publicly listed firms by publicizing the standards that enable the assurance of fairness of financial information (Hoti et al., 2012) and the truthfulness of the audited information for both internal and external users of financial statements Miettinen, J. (2011).

Earnings are much easier to manipulate to ensure the earnings per share (EPS) match analysts' forecasts. Thus, audit quality makes it easier for the management to reflect the company's market share based on the company's earnings, and earned

profits show the anticipated cash flows (Jordan et al., 2010). However, the anticipated cash flows are not capable of encountering the predicted earning values per figure share by the market analysts, which might affect the price share of the company. Still, they can achieve these expected outcomes by the potential progress and growth in the price of the stocks ((Jordan et al., 2010).

Though these expected consequences can only be attained by the prospective advancement and rise in the price of the stocks, the projected cash flows are unable to meet the forecasted earning values per figure share by the market experts, which might impact the company's price share. (Jordan et al., 2010).

According to signaling theory, business organizations that are highly respected perform better and lead the organizations toward profitable markets with the help of financial data and information announcements Jaffar et al. (2005). Moreover, the business organizations ensure that they indicate with the help of setting up an appointment within the businesses with the auditor of the external affairs ((Herbohn et al., 2007).

Stabilization of the market and investor trust depends on the reliability of the audit. The possibility of fraud or discrepancies that might cause stock market crashes is decreased by superior audits, which guarantee the dependability and correctness of financial accounts ((DeFond & Zhang, 2014)). On the other hand, low audit quality raises the possibility that financial misstatements may be noticed, which might cause stock values to drop sharply when inconsistencies are discovered.

The influence of audit quality on the danger of a stock market collapse is influenced by several variables. To begin with, strict auditing practices and conformity to professional standards improve financial reporting's credibility by lowering uncertainty and communicating transparency to investors (Francis et al., 2005). Second, before possible financial irregularities become crises, corporate organizations and external auditors may identify and work together to resolve them via efficient communication and cooperation (Herbohn et al., 2007). Finally, investor views of audit quality are influenced by the standing and experience of the auditing company; trustworthy firms foster higher confidence and lower the likelihood of a collapse (Chan et al., 2008).

Companies understand the value of taking preventative action to improve audit quality and lower the danger of a stock market meltdown. Setting up frequent lines of communication and scheduling visits with independent auditors is one such step. Businesses help auditors do in-depth investigations and proactively detect possible risks or inconsistencies by encouraging open communication and granting prompt access to pertinent financial information (Herbohn et al., 2007).

On various occasions, voluntary declarations by organizations might increase their reliability in the context of the audit quality of the financial data and information (Chen, 2000). The financial audited statements that auditors utilize are auditing conducted by dependable financial auditors rather than dependent auditors (Knechel & Vanstraelen, 2007).

Moreover, funding professional development and training for internal accounting teams improves their capacity to maintain precise financial records and enable effective audits (Li & Lin, 2005). Strong internal control procedures and risk management techniques also improve the audit process overall and lessen the possibility of substantial misstatements (Knechel & Salterio, 2016).

Research Gap

Research gap on the impact of Audit Quality on Stock Price Crash Risk with the Moderating Role of Board of Directors/ownership Structure in Emerging Markets, particularly in Pakistan," is lacking in many vital areas that have not been thoroughly examined. Although previous studies conducted worldwide have examined the connection between audit quality and the probability of a stock market collapse, there still needs to be more research that considers the particular subtleties of the board of directors as moderators in the context of Pakistan's distinct financial environment.

Comprehensive knowledge of how these governance mechanisms interact to influence audit quality and impact stock price crash risk in an emerging market context is limited. This gap makes it challenging to understand the complexities of Pakistan's financial system. It makes it problematic to develop focused regulations and tactics that reduce the danger of a stock market collapse in that particular setting. Research in this unexplored area might contribute significantly to the body of knowledge on corporate governance, audit quality, and stock market dynamics worldwide. Completing the gap would benefit stakeholders, regulators, and lawmakers in Pakistan and other developing economies.

Research Questions

- Does Audit Quality have an impact on mitigating the Stock Price Crash Risk?
- Does the board of directors moderate the relationship between Audit Quality and Stock Price Crash Risk?

2. LITERATURE REVIEW & HYPOTHESIS DEVELOPMENT

There is a shortage of research on the relationship between audit quality and the likelihood of a stock market collapse in Pakistan. Specifically, research on the effects of corporate governance mechanisms on audit quality is sparse. The lack of studies that investigate the role of the board of directors impact on the audit quality – stock price crash risk association is visible in emerging countries. Examination of this pivotal moderating function within Pakistan's distinct market dynamics indicates a

substantial gap in our understanding of the complex interactions among audit quality, governance frameworks, and stock price consistency. Investigating this relationship may provide essential insights into how Pakistan's board of directors and ownership structures may support or limit the effectiveness of audit quality, leading to more sophisticated knowledge of risk mitigation techniques for stock market crashes in the country's changing financial environment.

Literature on Crash Price Risk

The basis of this concept is that the firms' managers can withhold the crash price risks in the long term. If the managers successfully block the spread of adverse sensitive information within the stock market, they can maintain the asymmetric distribution of the firms' stocks (Hutton & Hehranian, 2009).

The performance of a single enterprise's stocks exhibits an insignificant skewness, which is indicative of crash price risk and has been the subject of much research in the financial literature (Chen et al., 2017). The idea behind this notion is that the management of enterprises should be able to reduce the permanent danger of collapse prices. Managers may maintain an asymmetric-to-symmetric distribution of the businesses' equities by successfully hiding negative, confidential data from the share markets (Hutton & Hehranian, 2009).

If the negative information about the crash price gets spread within the stock market, the companies face massive losses in the form of a negative drop down in the stock price (Kothari & Wysocki, 2019). However, blocking the information can often make the investors suspicious about the reality of the firms' crash price risks, and it could naturally drop the stock prices further of those companies within the stock market. It could result in a negative image of respective firms and cause significant losses to tackle (Chu et al., 2019). On the contrary, if the firms explain their crash risks, it only results in decreased stock prices, leaving long-lasting and adverse effects on the companies to overcome (Zhu, 2016).

One of the research projects also revealed that the crash risk is interlinked with low financial quality and higher frequency levels of restatements that motivate financial auditors to put in more effort whenever they observe high levels of crash risks (Chu et al., 2019). Moreover, crash risks contribute information for the engagement risk that plays a significant part in shaping the associations of auditor-client contracts (Khajavi, 2016). Numerous variables, such as audit quality, client characteristics, and the regulatory environment, influence the relationships between auditor-client contracts and engagement risk (Khajavi, 2016).

Numerous research works have thoroughly investigated the connection between audit quality and the likelihood of a stock market catastrophe. Previous studies, like Chen et al. (2019) and Wang et al. (2020), have repeatedly shown that the level of auditing has a significant impact on reducing the probability of a stock market crisis. The likelihood of stock price crashes is shown to be negatively correlated with higher audit quality, which is defined by the independence, competence, and thoroughness of auditing firms.

A number of factors that influence the probability of a stock market crash and the ensuing effects on investors and financial markets have been the subject of recent research on stock price crash risk. Scholars have investigated the relationship between crash risk and macroeconomic variables, including GDP growth, inflation rates, and interest rates (e.g., Jin & Ma, 2021; Kryzanowski & Mohamadi, 2020). Furthermore, research has looked at firm-specific traits as collapse risk predictive factors, such as monetary leverage, economic viability, and unpredictability (e.g., Cheng & Nguyen, 2023; Du, 2022). Furthermore, to gain insight into stock market sentiment and its link to crash risk, scholars may now study massive data sources of information, such as opinions on social media and broadcast sentiment, thanks to developments in computational techniques (e.g., Chiang et al., 2023; Khan et al., 2021). Overall, these new studies give insightful information on the factors that influence the likelihood of stock market crashes, with implications for regulators, politicians, and investors on how to manage and lessen the possible negative impacts of market financial crises.

Several studies have examined the moderating impacts of corporate governance structures, including the ownership structure and the board of directors' roles in shaping this connection. For example, research by Li et al. (2021) and Zhang et al. (2022) indicates that concentrated ownership combined with an efficient board of directors that has a higher percentage of independent members and strong monitoring capabilities can increase the mitigating impact of audit quality on the risk of a stock price crash. These results highlight the complex interactions between corporate governance frameworks and audit quality and how they affect stock market stability.

Numerous noteworthy discoveries have been made available in the latest studies on the influence of business governance systems, such as the board of directors, on audit quality. Chen and Li's (2020) research, for example, highlights the critical role that board independence plays in improving the quality of audits. They propose that independent boards are more likely to properly manage the audit process, which lowers the risk of audit failures. Furthermore, Wang and Wu's study from 2021 emphasizes the value of gender diversity on boards when it comes to enhancing audit quality. They contend that having a diverse board results in a greater breadth of viewpoints and levels of experience in the areas of reporting on finances and auditing. Jiang and Wang (2022) investigate the impact of attributes of an audit committee on audit quality and discover that audit quality is often better for boards with greater economic knowledge and independence. All of these recent studies point to the importance of corporate governance in determining audit quality in firms. These factors include diversity, board independence, and audit committee characteristics.

Studies on the connection between audit quality and stock price collapse risk have received much consideration in the literature. Competent audits are likely to lessen the chance of stock market meltdowns by improving the accuracy of financial reporting and minimizing information asymmetry. Numerous research, including those by Doyle et al. (2017) and DeFond and Zhang (2014), have bolstered the idea that reduced stock price crash risk is linked to better audit quality. The moderating effect of ownership structure and the board of directors, among other governance tools, may limit the influence of this link. According to researchers like Chen et al. (2016), concentrated ownership and a watchful and independent board may reinforce the beneficial impact of audit quality on reducing the danger of a stock market crisis by improving monitoring and supervision procedures. The literature emphasizes how crucial it is to consider how corporate governance practices and audit quality interact when analyzing the risk of a stock market crisis.

The literature on modern finance has studied the relationship between audit quality and the danger of a stock market collapse in the framework of corporate governance practices. Researchers who have studied this relationship in detail, like Chen et al. (2018) and Francis et al. (2014), have shown that improved audit quality dramatically reduces the chance of a stock market crisis. However, more recent research has shed light on this relationship by highlighting the critical role that ownership structures and the board of directors' moderating impact play, as shown by Wang and Chau (2020) and Li et al. (2019). Their results point to a more complex approach in which the efficiency of corporate governance structures determines how well audit quality mitigates crash risk. Even in some instances when audit quality is excellent, more robust governance, demonstrated by solid boards and ownership structures, acts as a buffer, reducing the adverse effects of possible stock price collapses. The literature highlights the complex interactions among audit quality, corporate governance, and stock market stability. It also provides insight into the many factors influencing investor confidence and risk mitigation tactics.

A substantial understanding of the dynamics of financial markets has been provided by recent research on audit quality and its connection to the danger of stock price fall. Research on the relationship between audit quality and the risk of stock price breakdown has been done by authors like Chen and Yan (2020), who have shown how important auditor independence and experience are in reducing this risk. Furthermore, Liu et al.'s study from 2021 examined the relationship between stock price crash risk and audit committee performance, highlighting the need for strong governance practices in preventing market volatility. Furthermore, Wang and Wu's (2019) research has explored the impact of regulatory supervision on audit quality and the following effect on stock price stability, highlighting the need for strict regulatory frameworks to maintain market integrity. Together, this research highlights the complex relationship between audit quality and stock price collapse risk, providing insightful information to financiers, professionals, and regulators.

Audit Quality Studies

Audited financial statements are highly significant to stakeholders and shareholders when they decide to invest in any business organization because they ensure the quality of its promises in the market (Chae,2020). Recent research has shown that quality audits reduce both abnormalities and improve crash price risks for companies. It also guides the investors and shareholders in identifying their liquid stocks and aids in stock decisions to avoid losses (Sultana et al.,2022). Moreover, the research has also revealed that the higher the quality of the audit, the lower the crash price risks for the companies, which is why all the big companies prefer to get their auditing done in the correct way to avoid the downfall within the stock market (Yeung et al.,2018). The audited financial statements also reveal the quality of the financial auditing that the organizations determine throughout the year, especially at the end of each year, for better and successful progress that helps the companies attract vast amounts of investments from the investors. (Amahalu,2020).

Amahalu (2020) highlights the importance of audited financial accounts in assessing the quality of financial audits carried out by institutions all year long, but especially at the close of each fiscal year. The audit's conclusions show how well internal control systems work, how well accounting standards are followed, and how trustworthy financial reporting procedures are generally. Investors may make well-informed investment choices by acquiring audited financial statements, which provide significant insights into the financial health and performance of organizations.

Quality audits are significant for all business organizations because they help them attract and convince potential investors, shareholders, and stakeholders to invest in business organizations (Firnanti et al.,2019). The quality of financial auditing proves highly beneficial for companies because the investors make significant decisions by reviewing the financial statements (Elewa et al.,2019). The investors can ensure that their investments are in safer hands, which will help them gain at least twice the profits of their actual investments (Nguyen et al.,2020).

According to (Christensen et al.,2020), some researchers have shown that financial audited statements and their quality have been utilized by most investors while making financial investment decisions within the business markets. Investors have always depended on the financial reports and quality audits of business organizations to make substantial business investments in the organizations respectively (Gardi et al.,2021). Audit quality makes it easier for the administration of the revenue department so that the company's earnings get the preferable share within the business market according to the share of the figures (Christensen et al.,2020).

Earnings are easy to modify to ensure the EPS meets forecasters' assessments. Meanwhile, the earned profits show the anticipated cash flows (Salehi et al.,2020). However, the expected cash flows are not capable of encountering the predicted

earning values per share by the market analysts that might affect the price share of the company but can achieve these expectancies outcomes by the potential progress and growth in the price of the stocks (Toumeh et al., 2021).????

It is simple to tailor earnings such that the EPS is in line with economists' estimates (Salehi et al., 2020). In addition, the projected cash flows are shown in the earned profits (Salehi et al., 2020). Though these anticipated outcomes can only be attained by the possibility of growth and development in the price of the shares, the expected cash flows are unable to meet the anticipated earnings per share by financial analysts, which might influence the business's earnings per share (Toumeh et al., 2021).

The quality of financial auditing is insurance for the business organizations to gather the investments from potential investments (Gardi et al., 2021). Therefore, many big organizations invest much strategy and planning into their financial auditing to ensure the audit quality so that they can easily pitch it to potential investments (Zureigat, 2010). Quality audits also make organizations stand out from their competitors within the market (Sattar et al., 2020). Moreover, the research has revealed that the quality of an audit is dependent on the possibility of a financial auditor disclosing and discovering the potential problems within an accounting/financial entity (Narayanawamy et al., 2019).

Research suggests that any modifications or misquoting in the audited financial statements can decrease investor confidence in the business organizations and impact their stock market (Shahzad et al., 2019). Thus, quality audit is directly proportional to the absence of modifications of the material aspects within the financial statements or the misquoting in the financial statements (Awa et al., 2020). Progressive audit quality is always associated with accurate economic findings and reporting by the organization's financial auditors, including internal and external auditors (Garcia-Blandon et al., 2020). Audit quality of the organization's financial statements and their measurement are highly significant for the companies to do business within the market and attract potential investors (PalmrAdo et al., 2020).

Most business organizations depend on highly qualified auditors for the best quality audit of their companies' financials (Garcia-Blandon et al., 2020). This helps the organizations make a secure position within the market, and the business firms tend to get better and instant progress rather than risking their companies' financials in the hands of less experienced auditors just for the sake of saving a little amount of money (Awa et al., 2020). It also helps the business organizations to protect themselves from unnecessary argumentations and hassle within the companies, and they do not have to face any disturbances at the time of yearly audit or the audit quality review in front of the potential auditors in the market (PalmrAdo et al., 2020).

Business organizations should understand it is incredibly significant to have their financial audits independent and professional as it plays an essential role in the progressive success of the companies in the business market as well as in front of the investors, shareholders, and stakeholders of the companies (Garcia-Blandon et al., 2020). Moreover, it maintains a healthy and competent environment within the business organizations' internal and external boundaries, especially within the market (Harris et al., 2020). It helps companies attract customers and investors because of their promising organizational behavior and the outstanding quality of their financial statements (Chen, 2010). For this purpose, companies must ensure a well-maintained corporate culture, resources, workforce, and trustworthiness among all their employees (Garcia-Blandon et al., 2020).

Organizations with more accurate financial auditing and better quality will succeed rapidly within the market, and the companies will be remarkable examples for other companies to work better and maintain quality financial audits (Sitanggang et al., 2020). This will help the company establish its new image within the business world and attract investors who want to work with them to their organizations by approaching the companies themselves because of their standards and better market image (Gardi et al., 2021). The companies will operate proficiently by securing top positions in the business world (Garcia-Blandon et al., 2020). This will benefit not only the stock market but also the country in which the stock market is making so much progress (Awa et al., 2020). It will help boost the country's economy to the next level, which will be highly beneficial for its development (Ugwunta & Ugwuanyi, 2018).

3. Research Methodology

This section may be separated into the theories embedded in Crash Price Risk and Audit Quality, as discussed below.

Crash Price Risk Theories

Stock price crash risk is highly complex and requires thorough methodologies, data collection, and ongoing studies to comprehend the risk of a stock market collapse. A comprehensive strategy that considers behavioral, fundamental, widespread, and unpredictable elements might provide significant insights into the phenomenon of a stock market crash, even if no one theory can perfectly explain the complexity of market dynamics. Several well-known ideas that try to explain and forecast these events are included in the theoretical framework for comprehending the danger of stock price crashes. These ideas try to explain the possibility of a stock market collapse, which worries economists and investors because of its possible effects on financial markets. Here are two well-known theories:

Heterogeneous Expectations Theory: The basic concept of the theory is that financial players have different assumptions and views about prospective stock prices. There may be higher volatility and catastrophes if these assumptions are generally accepted and mismatched. For example, variance may lead to instabilities if certain shareholders think an investment is expensive while others think it is cheap. When additional data becomes available, the market may see sudden changes in perception that result in panicked purchasing or selling and a collapse. According to this idea, shareholders may adhere to herding instead of making informed, logical assessments because of behavioral tendencies and herd mentality.

The Financial Instability Hypothesis: This theory, which researcher Hyman Minsky put forward, contends that stock market equilibrium encourages disruption. It describes an upward trend in which times of economic prosperity encouraged financiers, banks, and other financial providers to take on more risk. During stability, confidence rises, which promotes leveraging -using greater leverage to increase returns. However, taking on more debt and risk may make the financial system more brittle and vulnerable to shocks. A quick sell-off, asset devaluation, and eventually a stock market collapse may be caused by a single unfavorable event or change in the market circumstances. This theory emphasizes how financial institutions and debt accumulation enhance the effects of market shocks.

These theories provide diverse viewpoints on how various elements, including market dynamics, investor behavior, and financial institutions, influence the likelihood of stock market collapses. Understanding these ideas may assist policymakers and investors in predicting and reducing the effects of such occurrences on financial markets.

Audit Quality Theories

The agency theory is the theory that initiated and played a vital role in conducting this research study. Agency theory forms the basis for conducting audits to ensure that the wealth of the principal is being maintained by the agents (managers). The theoretical framework of the agency theory says that the organization comprises an interrelated set of contracts that exist between the principals, who are the economic resources owners of the firms, and the agents, who are the managers of the companies that use the resources for the running of the respective organizations.

Agency Theory

The basic concept of agency theory presents a framework for recognizing and solving problems in the interactions between company owners and their agents. That relationship is most commonly between shareholders, principals, company executives, and agents. Agency theory has been widely used in literature to investigate the information asymmetry between principals (shareholders) and agents (management). Audits are the tools used to reduce the information asymmetry between the principal and the agent. The research is based on agency theory, and it shows the association between audit quality and cash price risk and the influence of the ownership structure/board of directors on these two within organizations (Bosse, 2016). Moreover, it shows the significance of agency theory in presenting the value of audit quality on the cash price risk to improve the management control and protection of the interests of the shareholders within any firm (Shahzad et al., 2019). Audit quality is essential to managing the outcome of cash price risks any company must face within the business market (Fossung, 2022). The research also showed that audit quality is essential to solving all agency problems because it forms a direct association between the board of directors and audit quality. It is significant for companies to have well-maintained audit departments, including internal and external responsibilities, to enable them to have a strong ownership structure and avoid cash price risk (Knechel, 2020).

The framework of my study is presented in Figures 1a and 1b, shown below, drawing from theory and the extant literature. The study proposes two models: Figure 1a examines the impact of audit quality on the stock price crash risk of firms listed on the Pakistan Stock Exchange. Through the second model shown in Figure 1b, I investigate the impacts of the board of directors on the relationship between audit quality on stock price crash risk. It is crucial to see the impact of audit quality on stock prices. Still, it is just as crucial to evaluate whether corporate governance (through the board of directors) interferes with the relationship.

Figure 1(a) Framework for examining the impact of audit quality on stock price crash risk decisions

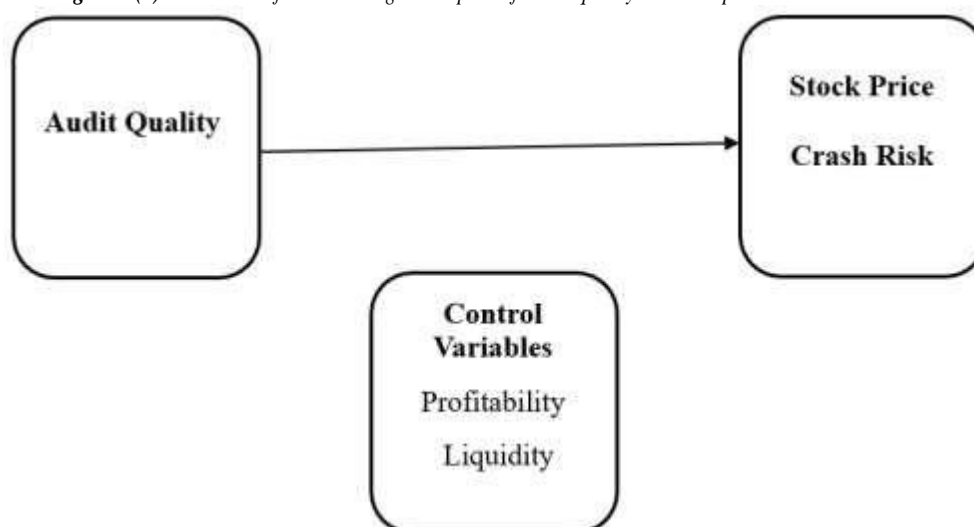
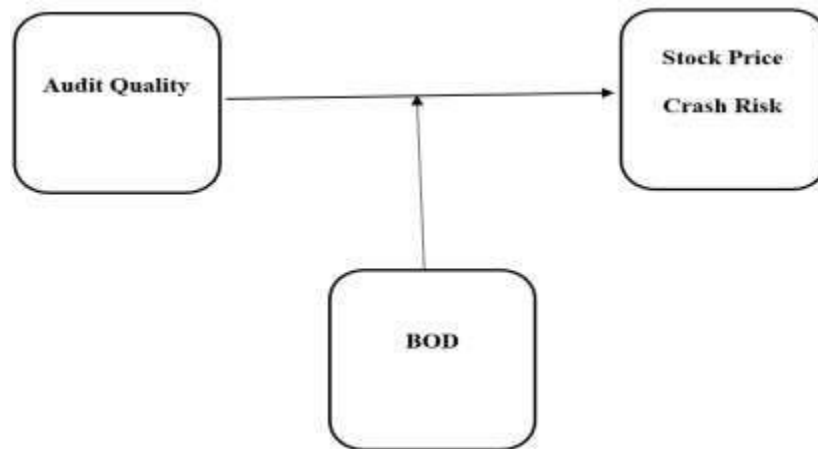


Figure 1(b) Framework for the impact of audit quality on stock price crash risk, with board of directors moderating effect

Research Hypotheses

The hypotheses of this research are based on the literature review provided in Chapter 2. Since the sample pertains to Pakistan, thus, the hypotheses relate to Pakistan:

Krishnan, Lin, and Wang (2014) use a large sample of US corporations across time to analyze the association between audit quality and crash risk. Results imply that a reduced crash risk is related to improved audit quality. When markets fall, companies with better audit quality often have less significant stock price decreases than those with worse audit quality.

In the framework of Chinese enterprises, Chen et al. (2010) explored the correlation between audit quality and stock price collapse risk. Researchers discovered that companies audited by Big Four auditors—who are regarded as offering greater audit quality—have a reduced chance of a stock price drop than companies examined by non-Big Four auditors.

Francis et al. (2005) emphasized on managing earnings and audit quality, which is often linked to the likelihood of a stock market catastrophe. Higher audit quality, as determined by auditor industry expertise and auditor tenure, was linked to lower levels of earnings management and, hence, a decreased likelihood of a stock market collapse, according to the research.

Doyle and his associates (Doyle et al., 2007) looked at the association between the risk of a stock market breakdown and the choice of auditor and audit quality. They discovered that in comparison to companies examined by non-specialist auditors, those conducted by industry-specialist auditors are linked to a decreased likelihood of a stock price fall.

Ashbaugh-Skaife et al. (2008) looked at the relationship between stock price collapse risk and auditor experience in the industry. Researchers revealed that companies audited by industry experts had a reduced probability of a stock price drop than companies evaluated by non-specialists.

While Krishnan (2003) use metrics like discretionary accruals and auditor industry specialty, Krishnan investigated the link between audit quality and stock price crash risk in this research. The results revealed that companies with lower levels of discretionary accruals and industry-specialist auditors, which are indicators of superior audit quality, often had lower stock price crash risk.

When taken as a whole, these findings deliver credibility to the idea that reduced stock price crash risk is linked with higher audit quality, as determined by variables like tenure, industry specialty, and auditor repute.

The research on the impact of an auditor's appointment by the shareholders as their watchdog because it influences the owners' decision-making. The management will have to provide the auditors with relevant documents to ensure that the interest of shareholders is not compromised. The bubble created by the management in the market makes the stock price crash risk. This impact must be checked, and the shareholders' appointment of auditors to check the work done by management is in the owner's interest. The effect of audit quality on the stock price crash risk must be limited, and the comparison of the results is whether the quality of work performed by auditors is influenced by the board of directors' reluctance to make material misstatements. The non-adjustment of material misstatements will impact the quality work of auditors as they will issue a modified report declaring the management decision and its impact on stock price crash risk.

The current research paper will be analyzing the following hypotheses shown in alternative form:

Hypothesis 1: Audit Quality reduces the impact of Stock Price Crash Risk of the company listed on the Pakistan Stock Exchange.

Preserving confidence among investors and preserving the credibility of financial information depends heavily on the quality of the audit. Numerous research has looked at the connection between audit quality and governance systems, such as determining the composition of the board of directors.

A review of earlier studies emphasizing the influence of these parameters on audit quality is given in this section.

Governance and Audit Quality

Board Independence: Studies have repeatedly shown that improved audit quality is correlated with a larger percentage of independent directors on the board. The presence of independent directors lessens the possibility of management influence on auditors by providing impartiality and objectiveness to the monitoring of accounting and financial reporting procedures (e.g., Klein, 2002; Beasley, 1996).

Board Experience and Expertise: Research indicates that having directors with experience in finance and the business has a beneficial impact on the quality of audits. Directors with a strong understanding of finance are better able to evaluate the quality of financial reporting and understand intricate financial transactions (e.g., Carcello & Neal, 2000; Bedard et al., 2004). The research shows a direct correlation between audit quality and governance systems, such as board makeup. Comprehensive corporate governance frameworks that support credible and precise financial information must include independent directors, board experience, and strong audit committees. Legislators, lawmakers, and professionals looking to improve corporate governance and uphold audit quality requirements must comprehend these linkages. Therefore, the second hypothesis of the study, in alternative form is provided below:

Hypothesis 2: Board of Directors plays a moderating role on the impact of Audit Quality on Stock Price Crash Risk of the company listed on the Pakistan Stock Exchange.

Methodology

The correlation involving audit quality, stock price crash risk, and the board of directors' moderating influence was investigated using a method based on quantitative analysis. For a predetermined time of ten years, information was gathered from a sample of publicly traded firms within the Pakistan stock exchange, usually via financial information systems and regulatory disclosures. In this section, I describe the process of gathering a data sample of ten years used in this research to analyze the impact of audit quality on stock price crash risk with the moderating role of corporate governance among the listed companies of Pakistan. The most important purpose of this study is to examine how audit quality has an impact on reducing the crash risk of the share price in the market. Further, I examined the role of corporate governance as a moderator in this study.

In addition to that, I have collected the data using a quantitative approach (secondary data). Quantitative research also highlights the hypotheses that are supported by theory, previous studies, especially the most recent studies and facts based on statistical techniques.

Data collection and sample selection

As this research depends on historical data, the research design used to conduct this study is the ex- post facto research design. The data gathered for this research has been obtained from the accounts of firms' sampled data for the quality audit variable and the annual firms' reports. It means the data gathered is secondary data as it has been gathered from other people's research regarding this research topic, and the study is called the secondary study. The data gathered for this study through the company's level from the Pakistan Stock Exchange for the prices of the stocks currently set within the stock market. The prices of the stocks available in the stock market consist of daily prices, weekly prices, and monthly prices. However, this research study follows the weekly stock prices and has utilized the stock prices of December as the closing stock price within its periods of ten years, varying from 2012 to 2021. The sample population of this research study comprises approximately 190 companies listed on the PSX.

Techniques for Data Analyses

For the study, I used cross-sectional pooled data for my analysis. The data is initially tested for normality. Then ordinary least square regressions methodology is applied in this study. To rule out any effects of serial correlation, I run the Durban Watson test.

Table3. 1 Variable Measurements

Variables	Abb	Definition
Independent variable Audit Quality	AQ	Audit quality refers to factors that increase the likelihood that the auditor will achieve the fundamental goal of achieving adequate confidence that the financial statement is free of material misstatement, as well as ensuring that material
		deficiencies discovered are addressed or communicated in the audit report.
Auditor's remuneration (independent variable measure of audit quality)	AR	The compensation is in addition to the fees owed to him. It covers all charges made by the auditor in connection with the audit as well as any facilities provided to him.
Statutory Audit Fee	SA	Audit fees are expenses made by businesses to pay public accounting firms to audit their financial accounts.
Auditor's Remuneration other than audit fee		Auditor pay is divided into two categories: fees for audit services and fees for additional services.
DUVOL (Dependent variable measure of stock price crash risk)		The natural logarithm of the standard deviation of firm-specific weekly returns on weeks when firm-specific returns were lower than the annual mean, referred to as down weeks divided by the standard deviation of firm-specific weekly returns on weeks when firm-specific returns were higher than the annual mean, referred to as up weeks.

Dependent variable Stock price crash risk	SPCR	The danger of a stock market crash is predicated on the concept that business executives postpone disclosing damaging news for a lengthy period for strategic or non-strategic reasons.
Stock price	SP	A share price, often known as shares pricing, is the cost of purchasing one share of a corporation.
Crash risk	CR	Crash risk, described as the dependent skewness of the return distribution, conveys risk asymmetry and is crucial for investing and risk management choices.
Board size	Bsize	The entire number of persons serving on a firm's board is referred to as the size of the board. Is used as control for other governance factors.
Moderator Board independence	Bind	Most company boards should be independent. An independent majority on the board is more likely to prioritize stock owners' best interests.
Control variables Firm Age	Firm Age	The period that a being or object has around been referred to as its age.
Return On Assets	ROA	Net income to total assets ratio.
Leverage	Lev	Leverage is an investing technique that involves utilizing borrowed funds to boost a potential return on the investment.
Market-to-Book Ratio (control variables)	Mbr	The ratio of the market value of a company's equity to its book value.
Size (control variables)	Size	Total assets' natural logarithm.

Stock price crash risk:

The possibility of an abrupt and substantial decrease in the market value of shares in an organization is known as "stock price crash risk." Disappointing business performance, unfavorable market circumstances, unforeseen occurrences, or inherent flaws in the company's governance framework or management are common causes of this risk. Owners are concerned about stock price crash risk because it may result in substantial reductions in portfolio value and undermine investor trust in the business (Gao et al., (2015).

The probability that the share price of a business would drop sharply and suddenly in a short amount of time, leaving stockholders with large revenue losses, is known as stock price crash risk. It shows how susceptible a company's stock is to really bad things happening, such as unanticipated financial difficulties, abnormalities in the books, or unfavorable market circumstances. A number of variables, such as firm-specific traits, the caliber of its monetary reporting, company governance procedures, and general market dynamics, might impact the danger of a stock price fall. In order to minimize possible losses and protect the efficiency of their portfolios, investors, as well as analysts, keep a careful eye on the danger of stock price crashes as part of their risk administration and financial decision-making procedures. Zhou et al. (2018).

Share Price Measurement

According to famous research, it has been found that two methods of share price measurement exist within the business world. The two share price perspectives include the measurement perspective and the information perspective. Both are essential share price perspectives of the capital market within the business world (Blessing, 2015). The measurement perspective assumes that the share price movement within the capital market can be committed by the price change or degree volume of the information revealed (Bernard, 1995). However, the information perspective calculates the measure of usage of the numbers of single users without even stressing the concise structure of the financial relationship, data, and the face value of the organization (Blessing, 2015).

The first-ever research document that consisted of all the statistics of the share price and its response within the market was about the methodology of the share price and its net income and is still implied within the business organizations in their organizational culture and structures (Ball & Brown, 1968). Moreover, the measurement perspective of the share price is majorly worked over the theoretical equity framework and valuation model (Ohlson, 1995). The measurement perspective of the share price is also used to present the face value of the organizations as the significant functionality of the companies' earnings, profitability, and book value within the market and in front of the investors (Blessing, 2015). However, the primary center of attention for all the progressing business organizations has shifted towards the valuation models comprising the per share dividend earnings of the yield in the current years (Kaplan, 2001).

Audit Quality

It refers to the extent that indicates that an audit adheres to legal requirements and successfully detects and conveys financial reporting errors, giving investors confidence in the reliability and precision of the audited financial statements. It is referred to as audit quality DeFond & Zhang (2014)).

Measures of Audit Quality:

Research has shown that bigger auditors captivate audit premium fees for their face value, and clients tend to believe more in

such business originations (Palmrose, 2004). The more business organizations invest in hiring professional and competent auditors for their companies for one time, the more the organizations benefit from their wise decisions (Reichelt et al., 2016). Moreover, investing in financial and professional auditors for the organizations is a one-time investment for the business organizations from which the companies take advantage for a more extended period and massive success towards the organizations (Okolie & Izedonmi, 2014). This financial decision by the company benefits the company regarding investors, potential stakeholders, and shareholders. It attracts several clients based on such business organizations (Palmrose, 2004) because the financial auditors they hire have a market value (Aobdia, 2016).

In simple words, professional financial auditors have a face value that attracts many customers to the organizations they are associated with in terms of business within the market (Okolie & Izedonmi, 2014). It is also a deep pocket theory process that saves money by investing only once (Aobdia, 2016). The companies' professional hiring of financial auditors changed their market image to be presented as more professional experiences and well-reputed for their quality audit and work ethics in front of other business organizations (Okolie & Izedonmi, 2014).

Moderating variable: Board Independence (BdInd)

As a moderating variable, board independence describes how much of a board of directors is made up of people who don't have a close connection with the leadership of the business. It shows the degree to which independent directors can effectively manage administration and monitor the procedure for auditing with objectivity. Board independence modifies the link between audit quality and governance systems in the context of empirical research, affecting the direction and degree of this correlation. Klein, A. (2002).

The Quantitative Research Models

Stock price crash risk is measured with the two most common crash risk measures: the NCSKEW (negative coefficient of skewness) and DUVOL (down-to-up volatility) of firm-specific weekly returns. Following prior literature (Hasan et al., 2021; Kim et al., 2011; Wang et al., 2020), I use DUVOL measure, the firm-specific weekly return is obtained with the expanded market model given in Equations below.

$$r_{i,t} = \alpha_i + \beta_{1i}r_{m,t-2} + \beta_{2i}r_{m,t-1} + \beta_{3i}r_{m,t} + \beta_{4i}r_{m,t+1} + \beta_{5i}r_{m,t+2} + \varepsilon_{i,t} \quad (1)$$

Where:

$r_{i,t}$ is the yield of stock i in week t . $r_{m,t}$ is weighted average weekly return on market value of a-share in week t . We use the residual item in formula (1) to calculate the specific market-adjusted return rate of stock i in week t : $W_{i,t}$.

$$W_{i,t} = \ln(1 + \varepsilon_{i,t}) \quad (2)$$

We use $W_{i,t}$ to construct two indicators to measure the risk of stock price crash:

Down-to-upvolatility (DUVOL)

$$DUVOL = \log \left\{ \frac{\left[(n_{up} - 1) \sum_{down} W_{i,t}^2 \right]}{\left[(n_{down} - 1) \sum_{up} W_{i,t}^2 \right]} \right\} \quad (3)$$

n is the number of weeks in which stock i trades in year t .

4. RESULTS AND DISCUSSION

Descriptive Statistics:

Dependent Variable: DUVOL: The Stock Price Risk Measure is the dependent variable that is represented by this variable. The main purpose of this study is to look at how audit quality affects the likelihood of a stock market crash. This risk is measured with DUVOL.

Independent Variable: The LnAudRem reflects the measure of audit quality is called the independent variable. It is anticipated that improved audit quality will equate to higher LnAudRem values.

Moderating variables: Board Independence, BdInd, indicates the percentage of independent directors on the board. In my research, this factor acts as moderator. It acts as a moderator in the link between stock price crash risk (DUVOL) and audit quality (LnAudRem).

Table 4.1 below depicts the descriptive statistics for the sample data.

Table 4.1 Descriptive Statistics

		DUVO L	Firm Age	BdSize	BdInd	ROA	Lev	Mbr	Firm Size	LnAudRem	LnAudRe m_BdInd
N	Valid	1900	1900	1900	1900	1900	1900	1897	1900	1895	1895
Mean		-6.703	34.87	2.057	0.732	0.070	0.613	1.94	15.236	7.178	6.857
Median		-6.721	32	1.946	0.714	0.047	0.557	0.921	15.210	7.143	6.817
Std. Deviation		1.301	16.15	0.172	0.090	0.507	0.433	14.200	1.663	1.241	1.263
Skewness		0.18	0.44	0.7	-1.327	36.255	5.708	-11.643	-0.762	-0.513	-0.465
Std. Error of Skewness		0.056	0.056	0.056	0.056	0.056	0.056	0.056	0.056	0.056	0.056
Kurtosis		2.249	0.024	4.347	5.245	1461.78	79.851	279.003	2.247	9.709	9.297
Std. Error of Kurtosis		0.112	0.112	0.112	0.112	0.112	0.112	0.112	0.112	0.112	0.112
Minimum		-14.154	1	1.099	0.143	-1.961	0.001	-318.939	8.279	-0.778	-0.959
Maximum		0.0042	55	2.708	0.91	20.763	8.844	142.85	19.95	14.513	14.39
Percentiles	5	-8.743	9	1.946	0.571	-0.086	0.157	0.0315	12.611	5.783	5.412
	25	-7.444	24	1.946	0.714	0.0047	0.376	0.372	14.431	6.560	6.207
	75	-5.985	46	2.168	0.778	0.1035	0.725	2.2168	16.332	7.735	7.431
	95	-4.477	62	2.398	0.875	0.217	1.544	9.328	17.667	8.991	8.714

Correlation:

In the framework of this research on the influence of audit quality on stock price crash risk, analyzing the links among the variables based on the correlation table that has been supplied, considering the moderating function of the board of director s Table 4.2:

In general, the correlation findings provide valuable perspectives on the connections among audit quality, board characteristics, and stock price risk. These findings are essential for comprehending the working processes within the framework of this research.

Table 4.2 correlations

Correlations									
		BdSize	BdInd	ROA	Lev	Mbr	Firm Size	Firm Age	DUVOL
BdSize	Pearson Correlation	1	.240**	-0.011	-.086**	-0.026	.085**	.153**	-.214**
	Sig. (2-tailed)		0.000	0.640	0.000	0.256	0.000	0.000	0.000
	N	1900	1900	1900	1900	1897	1900	1900	1900
BdInd	Pearson Correlation	.240**	1	-0.004	0.022	0.014	.071**	.045*	-.057*
	Sig. (2-tailed)	0.000		0.870	0.337	0.550	0.002	0.049	0.014
	N	1900	1900	1900	1900	1897	1900	1900	1900
ROA	Pearson Correlation	-0.011	-0.004	1	-.076**	0.043	-0.001	-0.028	-.058*
	Sig. (2-tailed)	0.640	0.870		0.001	0.064	0.960	0.215	0.011
	N	1900	1900	1900	1900	1897	1900	1900	1900
Lev	Pearson Correlation	-.086**	0.022	-.076**	1	-.048*	-.150**	-.072**	.240**
	Sig. (2-tailed)	0.000	0.337	0.001		0.038	0.000	0.002	0.000
	N	1900	1900	1900	1900	1897	1900	1900	1900
Mbr	Pearson Correlation	-0.026	0.014	0.043	-.048*	1	.058*	.075**	-.067**
	Sig. (2-tailed)	0.256	0.550	0.064	0.038		0.012	0.001	0.004
	N	1897	1897	1897	1897	1897	1897	1897	1897
Firm Size	Pearson Correlation	.085**	.071**	-0.001	-.150**	.058*	1	0.044	-.268**
	Sig. (2-tailed)	0.000	0.002	0.960	0.000	0.012		0.053	0.000
	N	1900	1900	1900	1900	1897	1900	1900	1900
Firm Age	Pearson Correlation	.153**	.045*	-0.028	-.072**	.075**	0.044	1	-.149**
	Sig. (2-tailed)	0.000	0.049	0.215	0.002	0.001	0.053		0.000
	N	1900	1900	1900	1900	1897	1900	1900	1900
DUVOL	Pearson Correlation	-.214**	-.057*	-.058*	.240**	-.067**	-.268**	-.149**	1
	Sig. (2-tailed)	0.000	0.014	0.011	0.000	0.004	0.000	0.000	
**. Correlation is significant at the 0.01 level (2-tailed).									
*. Correlation is significant at the 0.05 level (2-tailed).									

Durbin Watson Test for Serial Correlation

The Durbin Watson test results are shown in Table 4.3. It is predicted that the Durbin-Watson test findings will have a value between 0 and 2. When the value is near 2, it signifies that there is no autocorrelation, and the residuals are dispersed randomly. Values that deviate considerably from 2 indicate the existence of autocorrelation, however.

The existence of positive autocorrelation in this study, with a Durbin-Watson test score of 1.051, suggests that the regression

model's assumptions are satisfied. This could have an impact on the validity of regression findings, resulting in no exaggeration in standard errors and biased coefficient estimations.

Table 4.3 Durbin-Watson Test For Serial Correlation

Model Summary					
Model		R Square	Adjusted R Square	Std. Error of the Estimate	Durbin- Watson
1	.418 ^a	0.175	0.171	1.181054058	1.051
a. Predictors: (Constant), LnAudRem_BdInd, Firm Age, ROA, Mbr, Lev, BdInd, BdSize, Firm Size LnAudRem					
b. Dependent Variable: DUVOL					

In this first regression analysis, I examine the individual impacts of audit quality (LnAudRem) and Board Independence (BdInd) on Stock Price Crash Risk (DUVOL). The results are shown in Tables 4.4, 4.5, and 4.6 presented below.

Regression Analysis I:

Table 4.4

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	R Square Change	F Change	df1
1	.415 ^a	.172	.169	1.1822	.172	49.053	8

Table 4.5

ANOVA ^a						
		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	548.503	8	68.563	49.053	<.001 ^b
	Residual	2631.939	1883	1.398		
	Total	3180.442	1891			
a. Dependent Variable: DUVOL						
b. Predictors: (Constant), BdSize, ROA, Mbr, Firm Size, Firm Age, Lev, BdInd, LnAudRem						

Table 4.6

Coefficients ^a						
Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	-1.889	.432		-4.375	<.001
	Firm Age	-.009	.002	-.110	-5.141	<.001
	BdInd	.087	.311	.006	.280	.780
	ROA	-.106	.054	-.042	-1.970	.049
	Lev	.534	.064	.179	8.349	<.001
	Mbr	-.004	.002	-.048	-2.280	.023
	Firm Size	-.098	.021	-.125	-4.605	<.001
	LnAudRem	-.164	.029	-.157	-5.705	<.001
	BdSize	-1.081	.168	-.143	-6.439	<.001
a. Dependent Variable: DUVOL						

The results show that audit quality does reduce the impact of Stock Price Crash Risk in the market. However, Board Independence is not significant and shows no impact on the dependent variable on its own. The control variables are significant and in the direction of literature.

The results reject the first hypothesis in null form and therefore hypothesis can be accepted in alternative form:

Hypothesis 1: Audit Quality reduces the impact of Stock Price Crash Risk of the company listed on the Pakistan Stock Exchange.

Regression Analysis II

The presented ANOVA table 4.7 below provides insights into the regression model that was used to examine the influence of audit quality, which was moderated by board attributes, on the probability of a stock price fall (as determined by DUVOL), considering controlling variables. The table may be interpreted as follows:

The p-value (<.001) indicates that the regression model is statistically significant overall, indicating that the independent

variables in the regression model substantially influence the dependent variable (DUVOL). Keeping all other factors fixed, these coefficients show the projected impact of each predictor variable on the dependent variable.

The ANOVA findings indicate that the regression model, which includes audit quality, board characteristics, and control variables, offers insightful information about the elements affecting the likelihood of a stock market collapse (DUVOL). The model's substantial p-value suggests that it may be used to explain and forecast DUVOL. In the context of this research, individual predictors probably have relevant relationships with the likelihood of a stock market burst.

Table 4.7

ANOVA ^a						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	555.262	9	61.696	44.23	<.001 ^b
	Residual	2625.181	1882	1.395		
	Total	3180.442	1891			
a. Dependent Variable: DUVOL						
b. Predictors: (Constant), LnAudRem_BdInd, Firm Age, ROA, Mbr, Lev, BdInd, BdSize, Firm Size LnAudRem						

Interpretation of the regression model based on the coefficients given in Table 4.8 below, considers moderating variables Board of Directors, the control variables (Firm Age, ROA, MBR, LEV, Firm Size) in relation to the impact of audit quality on the risk of a stock price crash:

The log of audit remuneration (LnAudRem), used as the Measure of Audit Quality, has a coefficient of -1.994, meaning that if all other variables remain constant, the stock price crash risk (DUVOL) reduces by around 1.994 units for every unit rise in audit quality. This supports the hypothesis that improved audit quality results in more dependable financial reporting and lessens the possibility of abrupt stock price fluctuations by indicating an association between higher audit quality and a reduced chance of a stock market collapse.

The BdInd coefficient is -2.837, meaning that when all other factors are held constant, the chance of a stock price collapse falls by around 2.837 units for every unit increase in board independence.

The moderating influence of the board of directors reinforces the negative association between audit quality and stock price crash risk, as shown by these coefficients, which also imply that bigger board sizes and stronger board independence are associated with lower stock price crash risk.

Overall, the findings imply that the control variables have a major impact on stock price crash risk and so these are being controlled for. Also better audit quality, bigger boards, and more board independence are linked to reduced stock price crash risk. These results shed light on the intricate interactions that affect stock market stability and crash risk between corporate responsibility, financial achievement, and audit quality.

Table 4.8

Coefficients ^a						
Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	0.743	1.271		0.585	0.559
	LnAudRem	-1.994	0.832	-1.906	-2.397	0.017
	BdSize	-1.045	0.168	-0.139	-6.200	0.000
	BdInd	-2.837	1.364	-0.198	-2.080	0.038
	ROA	-0.107	0.054	-0.042	-2.001	0.046
	Lev	0.532	0.064	0.178	8.323	0.000
	Mbr	-0.004	0.002	-0.048	-2.281	0.023
	Firm Age	-0.009	0.002	-0.108	-5.069	0.000
	Firm Size	-0.097	0.021	-0.124	-4.576	0.000
	LnAudRem_BdInd	1.831	0.832	1.783	2.201	0.028
a. Dependent Variable: DUVOL						

Moderating effect - LnAudRem_BdInd

The coefficients for the interaction term showing impact of Board Independence needs to be read together as: $1.831 + (-2.837) = -1.006$ and is significant. Therefore, the findings show that Board of Directors have an enhancing negative impact on the association of audit quality on stock price crash risk, i.e. the board of directors reduces stock price crash risk through its impact on audit quality.

The results indicate that while audit quality reduces SPCR by -.164 (Table 4.6) on its own, the intervention of board of directors magnifies the reducing impact to -1.006. Therefore, the results reject the null hypothesis and find support for the second alternative hypothesis to show that there is a negative influence of board of directors on the effect of audit quality on stock price crash risk.:

H2: Board of Directors plays a moderating role on the impact of Audit Quality on Stock Price Crash Risk of the company listed on the Pakistan Stock Exchange.

The Board of Directors enhances the negative impact of Audit Quality on Stock Price Crash Risk of the companies listed on the Pakistan Stock Exchange.

6. DISCUSSION, CONCLUSION AND FUTURE DIRECTIONS

Discussion

The results show that the quality of the external audit has a strong impact on market stock price crash risk. The market perceives when the audit has been conducted with high quality standards, the financial statements are reliable and represent the real state of affairs of the company. Then investors face a reduction of information asymmetry and a greater transparency, thereby reducing stock price crash risk. The stock price crash takes place when the bubble bursts. The bubble of unnatural stock price inflation due to some market factors, but more so due to misrepresentation of the company's affairs in their financial statement. When the stock price settles to its realistic price, a crash may be evidenced. However, if the quality of the external audit is high, accompanied with transparency and accuracy, it is expected that the stock price is not artificially spiked and represents the realistic state of the company.

Generally, the board of directors on its own has no significant impact on stock price crash risk. However, when clubbed with audit quality the association has a risk reducing impact on SPCR. The markets perceive the influence of the board of directors as beneficial to the quality of the audit leading to reduction in risk. The monitoring by the board acts as a deterrent to high risk taking and fraudulent activities. The financial statements will show the real picture of the company and therefore the stock prices will be realistic and not dishonestly inflated. Therefore, there should be no stock price crash, when the prices correct to their real levels. Therefore, the higher the quality of the external audits, the lower the stock price crash risk

Conclusion

In summary, the research highlights how crucial it is to have high-quality audits in addition to strong corporate governance—specifically, the independence and diligence of the board of directors—to reduce the danger of a stock market meltdown and to maintain market integrity. To promote a more robust and stable financial market environment, policymakers, regulators, and corporate stakeholders should give priority to activities targeted at improving audit quality standards and bolstering the independence and efficacy of board oversight procedures.

In conclusion, this thesis shows that according to the results, the relationship between the independent variable on the dependent variable is negative, i.e.. the greater the audit quality of the listed companies, the lower the risk of stock price crash risk. The result of the study also shows that investing in quality auditor organizations in Pakistan can avoid the unexpected hurdles, risks and losses that the business faces in the business market. Along with this, the study also concludes that the one-time investment in the financial auditors for the quality audit improves the image of the organizations in front of the clients, investment, competitors and within the stock and business market. Potential investors and clients are attracted to doing business with an organization that is able to maintain a good market reputation because of the professional and promising financial auditors.

My research emphasizes the important influence that audit quality has on the probable outcome of a stock market collapse by emphasizing the moderating function that the board of directors plays in this association. My research indicates that the probability of a stock market crashing is often reduced by improved audit quality, indicating that accurate and comprehensive financial information reporting procedures support shareholder trust and stability in the stock market.

However, not every situation will have the same impact on the audit quality on the potential for stock market turmoil. I find that the board of directors' intervention in the procedures of audit quality decreases stock market collapse and perhaps eliminates bubbles in the market. This implies that the dependability of financial information may be compromised when boards fail to cooperate during an audit, raising the possibility of market volatility and sudden price drops and vice versa.

Significance of the Study

There needs to be more studies that examine the impact of audit quality on stock price crash risk in Pakistan and further study the additional influence of corporate governance mechanisms. This study provides innovative insights into the volatile market environment of Pakistan. It sheds light on the complex relationship between audit quality and stock price crash risk, focusing on Pakistan's market circumstances. The findings from this study may provide invaluable information by examining the moderating effects of the board of directors. These findings provide an in-depth comprehension of how these governance processes may either contribute to or eliminate the impact of audit quality on the risk of a stock price crash in the Pakistani market. The results of this research can significantly impact academics, lawmakers, regulators, and business leaders by offering practical insights that might lead to the development of more substantial governance standards customized to the specifics of the Pakistani market.

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