

## The Composition of the Audit Committee that Effects on Stock Return

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### Abstract

The objective of this study is to analyze the composition of the audit committee that influences the stock returns of listed companies on the Stock Exchange of Thailand. The sample group used in the study was 317 companies for a period of 5 years between 2017 – 2021 by using Path Analysis found that audit committee accounting and financial expertise and audit committee positively influenced Tobin's Q and capital gains yield. The study found empirical data that the firm value of listed companies on the Stock Exchange of Thailand is greatly affected by the composition of the audit committee. The results of empirical studies on audit committee composition should be given priority to audit committee accounting and financial expertise, audit committee to increase operational efficiency. The study concluded that there was a statistically significant direct influence on audit committee composition, audit committee accounting and financial expertise had a positive direct influence on performance measured by Tobin's Q, audit committee had positive direct influence on capital gain and operating performance as measured by Tobin's Q has a positive direct influence on capital gains yield.

**Keywords:** Audit Committee; Audit Committee Independence; Audit committee accounting and financial expertise; Frequency of Audit Committee Meeting; Stock Return

### Introduction

Business context the risk is the loss of the company's wealth. Today's businesses face many risks, such as globalization, complex business environments, competition and technological pressures, increasing international capital flows, currency fluctuations, and so forth. From a complex business environment come complex enterprise risks. This led to several corporate failures, including the

collapse of Enron and WorldCom in the United States has greatly undermined investor confidence in a financial misrepresentation scandal (Surbakti et al., 2017) Therefore, it is important to provide protection to investors. One way to protect investors is by strengthening the governance and management mechanisms by the audit committee of the entity; to mitigate the risks resulting from information asymmetry. Increasing follow-up of management actions by the Audit Committee (Madhani, 2020).

Investor interest in the audit committee that is part of corporate governance: controlling opportunistic behavior by executives. This is because it plays an important role in maintaining the quality of financial reports (Madhani, 2020). The effectiveness of the audit committee can guarantee financial reporting that is free from misstatements. Create better confidence for investors. In terms of evaluating the performance of an organization, it is another important matter that investors consider. The assessment must reflect the increase or decrease in value of the enterprise over the relevant period, whether it is a performance measure that focuses only on accounting figures from the financial statements. or information about market value. Investors' perceptions of the company's success if a company's share price in the capital market is high, investors will have a positive attitude towards the company. Investors will trust a company's future performance and prospects based on its market capitalization because a high company value creates more wealth for shareholders. The higher the firm value, the more wealth shareholders will feel. The financial ratio Tobin's Q is a performance measure combining information from financial statements and market values. It is a measure of performance that is based on reality as a market-based measure of performance. And focus on the future (Mottoh & Sutrisno, 2020) that can be linked to returns in investors' decisions to invest in stock. Each person's investment goals are different. Investors who hope to speculate are interested in returns from the difference in stock prices. As for investors who focus on long-term investment to own and be ready to grow with the company, you will receive returns in the form of dividends. Based on the interest of investors mentioned above, the researcher has studied and analyzed the composition of audit committees that influence the stock returns of companies listed on the Stock Exchange of Thailand.

## Research Objective

To study and analyze the composition of the Audit Committee that influences the stock returns of listed companies on the Stock Exchange of Thailand.

### Research Hypothesis

Hypothesis 1 The composition of the audit committee directly influences the operating performance.

Hypothesis 2 The composition of the audit committee directly influences the stock return.

Hypothesis 3 Operating performance has a direct influence on the stock return.

Hypothesis 4 Firm size has a direct influence on the operating performance and stock return.

## Scope of Research

**Content of Scope** The composition of the audit committee that affected stock returns was audit committee size, audit committee independence, audit committee accounting and financial expertise, and frequency of audit committee meetings.

**Population of Scope** The sample group used in the study was 317 companies for a period of 5 years between 2017 – 2021 by using path analysis

## Literature Review

### Audit Committee Size:

Number of directors appointed to the audit committee Effectiveness in controlling and monitoring the behavior of managers The Audit Committee must have sufficient numbers to carry out its responsibilities and have sufficient resources (Alqatamin, 2018). Audit Committee size depends on the size of audit committee size depend on size of the company and its board of directors. Glover and Azembila (2016) found a negative relationship with Capital gain yield and Yakubu, Kapusuzoglu and Ceylan (2022) found a positive relationship with dividend yield. For listed companies in Thailand, it is required to appoint at least three audit committee members but not More than five people.

### Audit Committee Independence

The Independent Audit Committee, as a sub-committee of the board of directors, has oversight responsibility for the firm's financial reporting process. The audit committee serves as a

reinforcing agent for the independence of internal as well as external auditors. Audit committees are expected to be more effective in the oversight of financial reporting when they are independent (Siam, Laili & Khairi, 2015). An important element that will ensure audit committee effectiveness requires the committee members to be independent or free from the influence and pressures of top management (Jun Lin et al. 2008). Ali and Amir (2018), Yanti and Patrisia (2019), and Zubair (2020) found that it had a positive effect on Tobin's Q and Karajeh and Ibrahim (2017) found that it had a positive effect on earnings per share Yakubu, Kapusuzoglu and Ceylan (2022) found that it had a positive effect on dividend yield.

### **Audit committee accounting and financial expertise**

Accounting and finance expertise of audit committee members is critical to their effectiveness. Audit committee members with expertise in accounting knowledge can facilitate the committee in monitoring the financial reporting process more effectively (Sun et al., 2014; Ahmed et al., 2017). Another audit committee attribute that may influence firms' performance is the presence of a financial expert in its composition. The audit committee's primary duty is to oversee firms' accounting, auditing, and financial reporting processes (Anderson et al., 2004; Musallam, 2020; Bazhair, 2022). The existing literature suggests that financial expertise comprises acquiring education or experience in accounting and finance-related jobs (Buallay & Al-Ajmi, 2019; Davidson et al., 2004). empirical studies found that a higher proportion of financial experts in the audit committee positively impact firms' financial performance (Chaudhry et al., 2020; Kallamu & Saat, 2015). Zubair (2020), and Özcan (2021), found that audit committee accounting and financial expertise had a positive effect on Tobin's Q.

### **Frequency of Audit Committee Meeting**

Similarly, audit committee meetings and meeting attendance are important to its effectiveness in the financial reporting of organizations (Saleh et al., 2007; Musa et al., 2017). Meeting frequency signifies the level of audit committee activities and is assumed to be a significant attribute for effective monitoring (Vafeas, 1999). Al-Matari (2019) a considerable body of the literature reported that firms with higher audit committee meetings have fewer reports of financial fraud (Abbott et al., 2004; Haji, 2015). Similarly, emphasized that frequent meetings help provide timely financial information to investors, thereby reducing agency conflicts between shareholders and management. Accordingly, prior studies indicated a positive relationship between audit

committee meetings and firm performance (Alzeban, 2020; Musallam, 2020). Özcan (2021), Ali and Amir (2018) found that frequency of Audit Committee Meeting had a positive effect on Tobin's Q. Yakubu, Kapusuzoglu and Ceylan (2022) found that the frequency of Audit Committee Meeting had a positive effect on dividend yield Ksthury and Anandasayanan (2020) found that the frequency of Audit Committee Meeting had a positive effect on earn per share.

### **Operating performance**

Tobin's Q mean financial ratios that measure performance based on the concept of combining information from financial statements and market value. The use of book value as a representation of the market value for certain variables is a measure of the actual measure of performance as a measure of market performance and is future-oriented (Mottoh & Sutrisno, 2020) thus reflecting the present value of future cash flows (Chung & Pruitt, 1994; Wahla. , Shah & Hussain, 2012). Operation is correct not only reflect past performance It also represents the company's future development expectations.

### **Stock Return**

Stock return is the value returned to shareholders as a result of management's ability to increase earnings, dividends and share price. Many researchers use stock returns to measure a firm's performance (Azeez, 2015; Karajeh & Ibrahim, 2017; Septian, Ariyani & Ispriyahadi (2020). Herefore, the present study also used dividend yield and capital gain yield as proxy to measurement.

### **Conceptual Framework**

The Labels and Measurement of the Variables

The composition of the audit committee: Audit committee AC Audit committee independence ACI Audit committee accounting and financial expertise ACAFE Frequency of audit committee meeting FACM

Operating performance: Tobin's Q TBQ

Stock Return: Dividend yield DIY Capital gains yield CPG

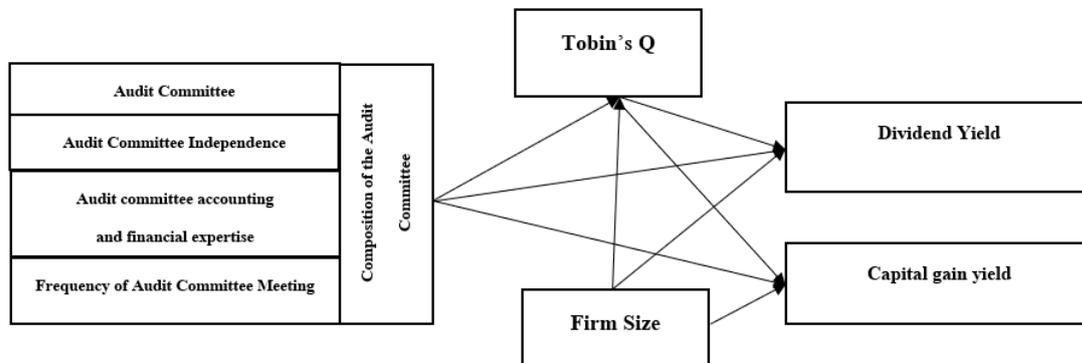


Figure 1 Conceptual framework

## Research Methodology

### Population and sample

The population is a listed company on the Stock Exchange of Thailand, but the proposed study excludes financial companies and insurance companies due to different financial reporting characteristics. Therefore, the sample consisted of 317 listed companies out of the population of 631 companies. The data used in this analysis consisted of the composition of the audit committee. Operating performance and stock return were collected from the annual reports of the said companies from 2017 to 2021, for a total of 5 years. Consideration of the suitability of using sample groups in research. The researcher has studied and considered the sample group to be suitable for data analysis from the AMOS (Analysis of Moment Structure) program. The analysis must use a sample that is sufficient for data analysis. The appropriate sample size for data analysis should be 10 – 20 times the number of observed variables (Wanichbancha, 2013). The study has a total of 14 observed variables. The sample size was set to be 20 times, resulting in a minimum sample size of 280 cases, which meets the criteria. The tools used in the research are data recording forms. From the annual report (Form 56-1), annual report (Form 56-2). Display the annual information/annual report (Form 56-1 One Report).

### Measuring of Variables

The selection of variables from the study of concepts, theories, and related research to determine the structure of the variables. And measurement of the studied variables There are

3 main components in this study, namely: 1) composition of the audit committee 2) Operating performance; and 3) Stock returns as shown in Table 1.

**Table 1** The Labels and Measurement of the Variables

Variable	Label	Definition and Measurement
<b>Composition of the audit committee:</b>		
Audit Committee	AC	Total number of members of the Audit Committee
Audit Committee Independence	ACI	Percentage of the number of independent audit committees
Audit committee accounting and financial expertise	ACAFE	Percentage of the number of audit committees or committees with education or experience in accounting and finance
Frequency of Audit Committee Meeting	FACM	Number of member meetings per year
<b>Operating performance:</b>		
Tobin's Q	TBQ	Market price per share x number of shares + Liabilities / total assets) x 100
<b>Stock Return:</b>		
Dividend yield	DIY	Dividend per share / stock market price) x 100
Capital gains yield	CPG	Stock price at year – stock price at year – 1 / stock price at year – 1) x 100
<b>Control variables:</b>		
firm size	Size	Natural Logarithm of firm size

## Research Results

The results of the correlation analysis of the correlation model the composition of the Audit Committee that influences the stock return of listed companies on the Stock Exchange of Thailand as shown in Figure 2.

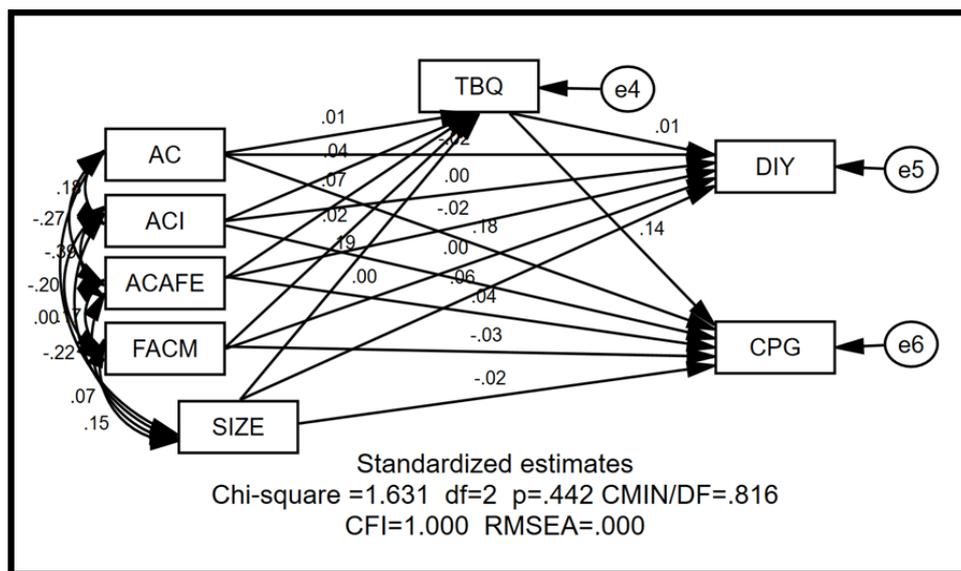


Figure 2: Correlation Model Consistency

Figure 2 shows that the empirical data and the theoretical model of the error (e) are consistent with the criteria as shown in Table 2

Table 2 show results and criteria for checking the consistency and inconsistency of the correlation model

label	Statistics	standard	results	agreement
p-value	Chi-square Probability Level	>0.050	0.442	agree
CMIN/df	Relative Chi-square	<3.000	0.816	agree
CFI	Comparative Fit Index	>0.900	1.000	agree
RMSEA	Root Mean Square Error of Approximation	<0.080	0.000	agree

### Data analysis results

**Table 3** Shows a summary of data analysis results separated by hypothesis

Variable		Beta	b	S.E.	C.R.	p	Result	
AC	--->	TBQ	0.009	0.02	0.054	0.37	0.712	Do not Accept
AC	--->	DIY	-0.02	-0.341	0.456	-0.747	0.455	Do not Accept
AC	--->	CPG	0.18	16.487	2.347	7.025	***	Accept
ACI	--->	TBQ	0.044	0.324	0.203	1.601	0.109	Do not Accept
ACI	--->	DIY	0.001	0.086	1.706	0.051	0.96	Do not Accept
ACI	--->	CPG	0.003	0.826	8.772	0.094	0.925	Do not Accept
ACAFE	--->	TBQ	0.073	0.268	0.102	2.639	0.008**	Accept
ACAFE	--->	DIY	-0.024	-0.722	0.857	-0.843	0.399	Do not Accept
ACAFE	--->	CPG	0.039	6.205	4.405	1.409	0.159	Do not Accept
FACM	--->	TBQ	0.022	0.021	0.024	0.856	0.392	Do not Accept
FACM	--->	DIY	-0.005	-0.039	0.205	-0.192	0.848	Do not Accept
FACM	--->	CPG	-0.034	-1.417	1.056	-1.341	0.18	Do not Accept
TBQ	--->	DIY	0.007	0.062	0.211	0.291	0.771	Do not Accept
TBQ	--->	CPG	0.14	6.096	1.087	5.61	***	Accept
SIZE	--->	TBQ	0.193	0.118	0.016	7.579	***	Accept
SIZE	--->	DIY	0.063	0.318	0.133	2.388	0.017*	Accept
SIZE	--->	CPG	-0.02	-0.541	0.684	-0.79	0.429	Do not Accept

Significant at the \*\*\*  $P < 0.001$ , \*\*  $P < 0.01$ , \*  $P < 0.05$

Where: AC for Audit Committee, ACI for Audit Committee Independence, ACAFE for Audit committee accounting and financial expertise, FACM for Frequency of Audit Committee Meeting, TBQ for Tobin's Q, DIY for Dividend Yield, CPG for Capital Gains yield and SIZE for firm size

Results from Table 3 and Figure 1, the researcher can present the analysis results to answer the research hypothesis as follows:

The hypothesis 1, The composition of the Audit Committee directly influences on the operating performance found that it is accept, audit committee accounting and financial expertise (ACAFE) has a has a direct influence on positive to operating performance measured with Tobin's Q (TBQ) at the significance level of 0.01, which the value shown on the correlation line is 0.07.

The hypothesis 2, The composition of the audit committee directly influences on the stock return found that it is accept, audit committee (AC) has a direct influence on positive to stock return measured with Capital gain yield (CPG) at the significance level of 0.001, which the value shown on the correlation line is 0.18.

The hypothesis 3, Operating performance has a direct influence on the stock return found that it is accept, Tobin's Q (TBQ) has a direct influence on positive to stock return measured with capital gain yield (CPG) at the significance level of 0.001, which the value shown on the correlation line is 0.14.

The hypothesis 4, firm size has a direct influence on the operating performance and stock return found that it is accept, firm size (SIZE) has a direct influence on positive to operating performance measured with Tobin's Q (TBQ) at the significance level of 0.001, which the value shown on the correlation line is 0.19 and dividend yield (DIY) at the significance level of 0.05, which the value shown on the correlation line is 0.06.

## Discussion

The objective of this study is to analyze the composition of the audit committee that influences the stock returns of listed companies on the Stock Exchange of Thailand. The results of this study were found that audit committee accounting and financial expertise has a direct influence on operating performance as measured by Tobin's Q, which is consistent with Özcan (2021), and Ramlee and Ahmad (2020) and found that the audit committee size has a direct and positive influence on capital gain yield, which is consistent with Glover and Azembila (2016), Karajeh and Ibrahim (2017)

## Conclusion

The purpose of this study is to study and analyze the composition of the audit committee that influences the stock return. The results of the analysis of the influence of the composition of the audit committee found that the audit committee has a direct and positive influence on capital gain yield, audit committee accounting and financial expertise, and firm size have a direct influence and positively on the Tobin's Q. Firm size has a direct and positive influence on the dividend yield, and Tobin's Q has a direct and positive influence on the capital gain yield.

## Suggestions

This research studied companies listed on the Stock Exchange of Thailand. During the period from 2017 – 2021 only, in the next research the research may be repeated in the next period. Due

to the change of time and the situation of the outbreak of the COVID-19 epidemic has been resolved so that research can be more accurate.

### Knowledge from Research

The Composition of the Audit Committee that Effects on Stock Return found that the characteristics that could be required in the members of the audit committee and strengthening their Audit committee accounting and financial expertise and audit committee in view of their positive influences on the operating performance and stock return

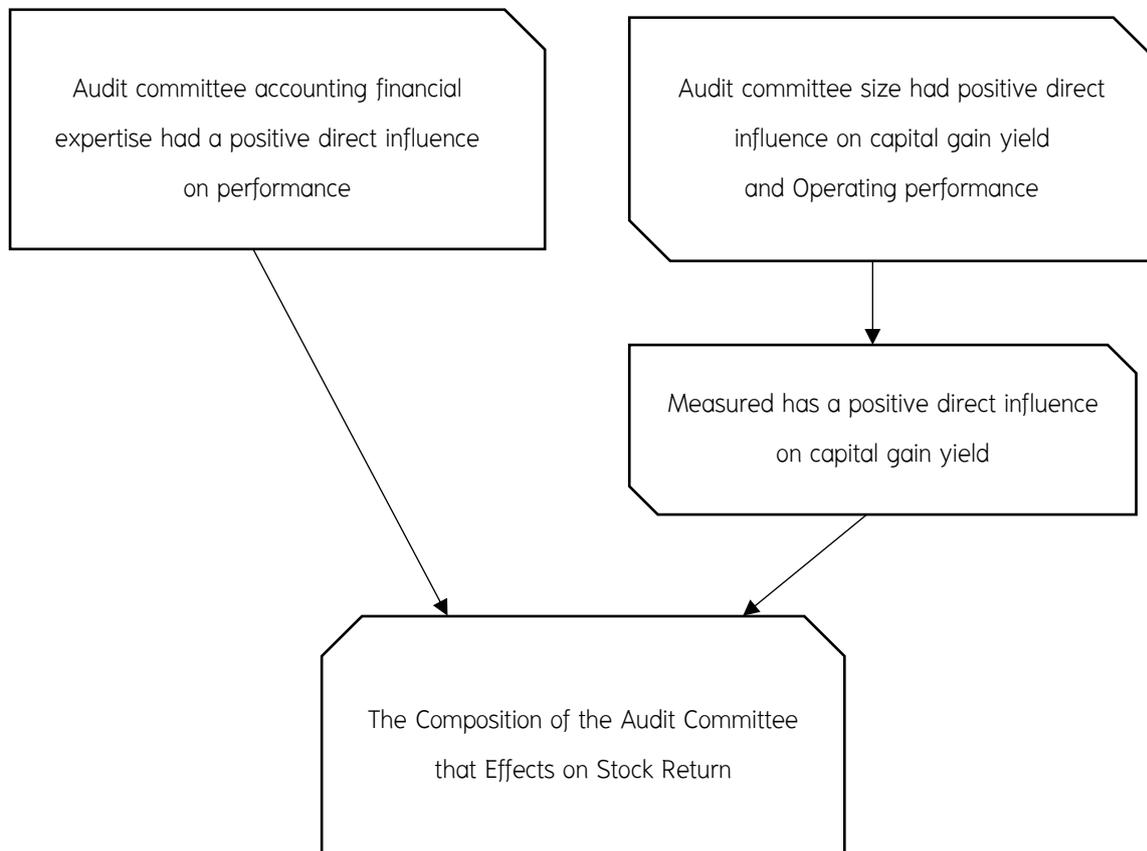


Figure 3 New knowledge

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