

Impact of audit fees on IDLC's market performance

Khudeza Akter *

Green Business School, Green University of Bangladesh, Bangladesh.

International Journal of Science and Research Archive, 2025, 15(01), 510-522

Publication history: Received on 19 February 2025; revised on 28 March 2025; accepted on 30 March 2025

Article DOI: <https://doi.org/10.30574/ijrsra.2025.15.1.0889>

Abstract

This study investigates how audit fees influence IDLC Finance PLC's stock returns and return on assets (ROA). The findings indicate that higher audit fees are associated with declines in both ROA and stock performance. This outcome supports existing research that suggests investors may view rising audit costs as a burden, potentially prompting some to shift their investments to other firms perceived as more profitable. Therefore, the observed drops in ROA and stock returns are understandable. Additionally, the study explores whether increased audit fees impact overall trading volume but finds no statistically significant relationship. The research carries important implications for market participants. Financial institutions generally strive to meet several objectives, such as generating sufficient profits to pay dividends, delivering a satisfactory return to shareholders, and reinvesting in the business through employee motivation, customer satisfaction, and enhanced community reputation. To meet these aims, effective use of financial resources is crucial. Based on the analysis, the study provides evidence that IDLC Finance PLC endeavors to achieve these objectives by strategically utilizing all available resources.

Keywords: M4; M41; M42; G3; G38

1. Introduction

IDLC, a leading non-banking financial organization in the country, has been serving customers since 1985. It is well-known for providing a variety of lending services, including lease financing, term loans, corporate financing, and investment banking. The company operates in both corporate and consumer financing sectors. As a consumer-focused organization, IDLC has successfully helped millions of people achieve their financial goals. As a result, all its departments follow robust standard practices. The organization comprises eight departments: HR and management, corporate finance, SME, consumer finance, operations, legal, Islamic finance, and marketing. This chapter of the report will examine the practices and key activities of each department. IDLC stocks trade on the public stock exchanges. Being a publicly traded company, its financial statements must get audited by independent auditors as part of the regulatory compliance. In this study, I examine the impact of IDLC's audit fees on its market performance.

1.1. Objectives of the Study:

Audit fees being a significant expenditure for companies, play a crucial role in ensuring financial statement and maintaining investor confidence. For financial institutions like IDLC Finance Limited (IDLC), audit fees reflect the quality and depth of financial oversight. A higher audit fee may indicate a comprehensive audit process, potentially leading to enhanced market trust and better performance. This study explores how audit fees influence IDLC's market performance by examining the relationship between audit costs and financial outcomes.

The primary objectives of this study are as follows:

* Corresponding author: Khudeza Akter

- To evaluate the impact of audit fees on IDLC's market performance.
- To analyze the correlation between audit fees and financial transparency.
- To investigate whether increased audit fees lead to improved investor confidence and market valuation.
- To identify the factors influencing audit fee determination in IDLC.

1.2. Importance of the Study

Understanding the relationship between audit fees and market performance is essential for multiple stakeholders. This study is significant because:

- It provides insights for investors seeking to understand how audit practices affect financial stability.
- It helps IDLC's management evaluate the cost-benefit relationship of audit expenditures.
- It contributes to the academic literature by offering empirical evidence on audit fees' influence on market performance.
- It aids policymakers in establishing guidelines on audit practices and financial disclosures.

1.3. Scope of the Study

This study focuses on IDLC Finance Limited, one of Bangladesh's top non-banking financial organizations. The scope includes:

- Analyzing audit fee data over a specified period.
- Examining IDLC's market performance through key financial indicators.
- Reviewing audit practices and regulatory frameworks governing audit fees.
- Considering external factors that may mediate the relationship between audit fees and market performance.

2. Research Methodology

To conduct various analyses of this study, I collected data from two main sources: primary sources and secondary sources. As part of my primary source of data collection, I conducted a survey comprising a sample size of 25 respondents who work and hold accounts with IDLC's Dhanmondi branch. These employees have varying degrees of working experience with the company. I also utilize insights from the front-line service providers of the company. These primary data complement the secondary data I collected for this study.

With respect to the secondary source of data collection, I hand-collect various key data (e.g., total assets from the Balance Sheet, and net operating income from the Profit and Loss Statement) from the official website of IDLC Finance PLC. I also retrieved IDLC's stock market data from investing.com, which serves as a leading source of financial market data for Bangladeshi publicly traded companies.

Limitations of the Study

Despite the comprehensive approach, this study is subject to several limitations:

- Data availability is restricted to publicly disclosed audit fees and financial reports.
- The study focuses solely on IDLC, limiting the generalizability of findings to other institutions.
- External factors affecting market performance may not be fully accounted for.
- The analysis is time-bound and may not reflect long-term trends.

3. Organizational Overview

3.1. History of IDLC Finance PLC

Incorporated as One of Bangladesh's biggest non-banking financial institutions (NBFIs) is Industrial Development Leasing Company of Bangladesh Limited, or IDLC. It is the most prominent non-banking financial institution in the country offering a wide variety of products and services such as home loans, small and medium enterprise (SME) loans, various deposit schemes and treasury products, commercial loans, corporate finance products, etc. It also maintains three subsidiaries which offer asset management services, stock broker services as well as traditional merchant banking services.

Soon after its establishment IDLC opened a branch in Chittagong, the most important port city of Bangladesh. One of only a handful of AAA-rated financial companies in Bangladesh, IDLC started trading its stocks to the public in the early 1990s when it was listed on the Dhaka Stock Exchange, the country's predominant public stock exchange. Soon after in 1995 it also started trading in the country's second-largest stock exchange, Chittagong Stock Exchange. Dhaka and Chittagong host Bangladesh's only two available stock exchanges. It began its home finance and short-term finance operations in 1996. The following year Securities and Exchange Commission, Bangladesh's capital market watchdog, gave Merchant Banking license to IDLC. Following the approval, IDLC began merchant banking operations along with offering corporate finance products and services to the public in 1998. In 1999 it launched investment management services to the client. In collaboration with the Government of Canada's Canadian International Development Agency, IDLC embarked on its first SME initiative named Local Enterprise Investment Centre (LEIC) in 2004. In 2005 it launched securitized zero-coupon bonds for the first time. It also launched its first wholly-owned subsidiary, IDLC Securities Limited, in the same year. In 2006 it started Portfolio Management Services to its clients. In late 2010 it opened its second wholly-owned subsidiary, IDLC Investments Limited. In 2014 it opened IDLC Asset Management Limited and started offering asset management products and services. IDLC's growing popularity and reach earned it the National Award for Corporate Governance 2016, a first that paved the way for many more in the following years. In the same year it was also recognized as the highest taxpayer for NBFI category. It also started offering open-end mutual fund products at that time. In late 2018 it established affordable housing programs. More recently, it has been offering state-of-the-art services such as digital term deposit, online onboarding platform, VSE financing, etc.

As of September 30, 20204:

- Total Operating Income 5,262,674,209 BDT.
- Total Net Income 1,253,697,257
- Total Assets 146,568,543,438 BDT.

3.2. IDLC's Mission and Vision

3.2.1. Mission

IDLC aims to preserve sustainable company methods, attain excellent growth, and provide exceptional customer service.

"Our priorities will be sustainable business methods, excellent customer service, and quality growth." (IDLC official webpage <https://idlc.com/idlc-at-a-glance>)

3.2.2. Vision

IDLC wants to be the best financial brand in Bangladesh.

"We will be the best financial brand in the country" (IDLC official webpage <https://idlc.com/idlc-at-a-glance>)

3.3. Field of Operation

IDLC Finance PLC is the country's premier NBFI. Within its NBFI scope, it offers a broad array of services. It offers the following noteworthy services:

- Retail loans (home loan, car loan, personal loan)
- Corporate, supply chain, SME, women entrepreneur, and structured financing business loans)
- Deposits (term deposit, online deposit, online DPS, priority)
- Through its subsidiaries, IDLC Securities Ltd., IDLC Investments Ltd., and IDLC Asset Management Ltd., it provides capital market services.
- Corporate Social Responsibility and other Sustainability programs (CSR, green and sustainable finance, United Nations Environment Programme Finance Initiative- UNEP FI, financial literacy wing, etc.)

3.4. IDLC's Core Values

3.4.1. Values

IDLC aims to achieve its mission and vision by incorporating the following core values:

- Integrity

- Customer focus
- Equal opportunity
- Trust and Respect
- Passion
- Simplicity
- Eco-Friendly

3.5. Leadership Approaches

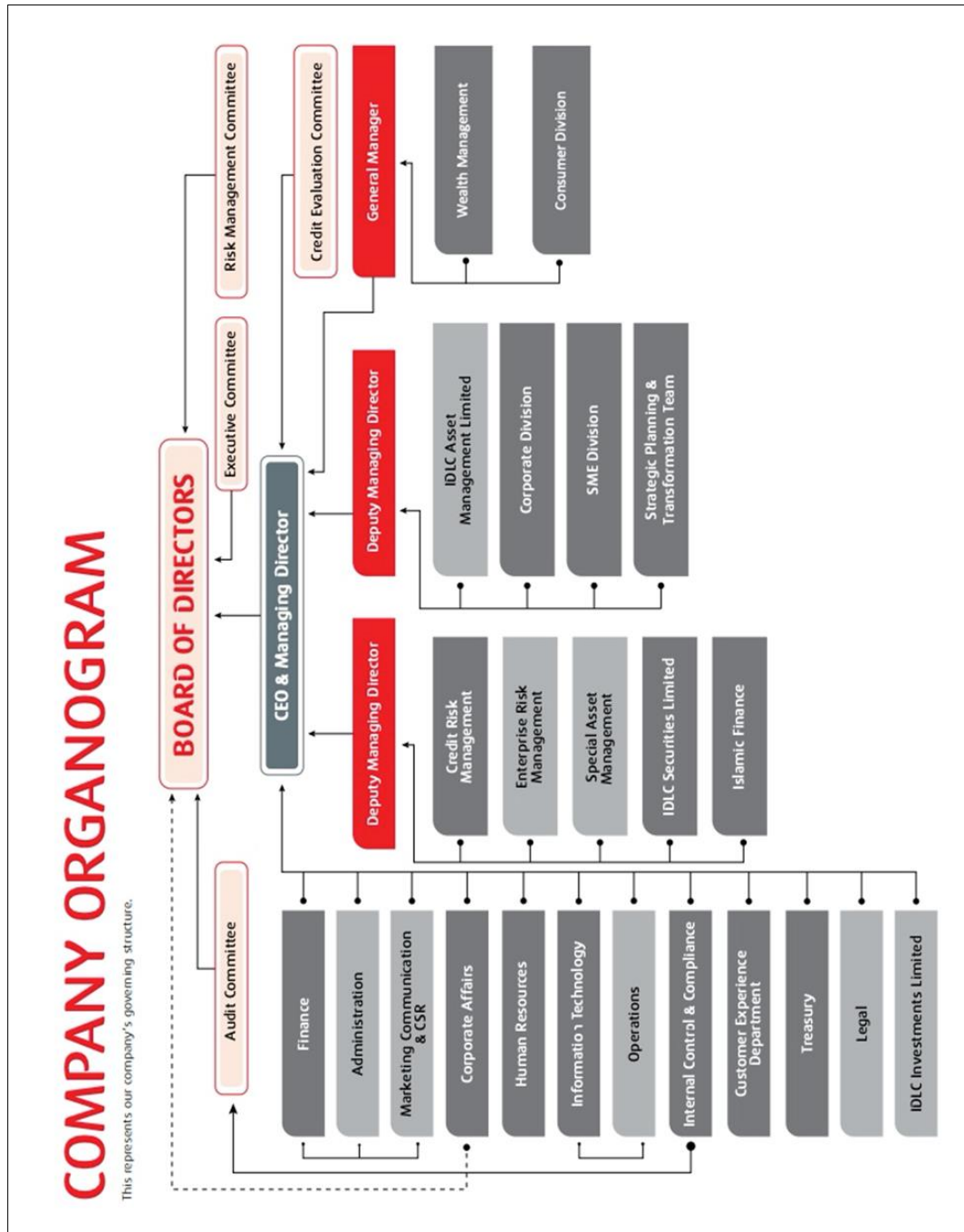


Figure 1 IDLC Finance PLC's governing structure

IDLC does not adhere to a single leadership style but instead adopts a mix of leadership approaches that vary across departments, teams, and the Board of Directors. Based on observations and inquiries during my internship, I learned that leadership practices differ at various levels. The most common leadership style at the Board of Directors (BOD) is

democratic, where members discuss issues and potential opportunities that could impact the next quarter. Through meetings, they reach consensus on possible solutions and implementation methods.

Department heads then communicate their goals for the upcoming quarter to their teams, typically using a laissez-faire approach. They assign targets but leave it up to the teams to determine the methods and strategies for achieving them within the given timeframe. Within individual teams, leadership styles also vary: some teams, like those in the operations department, follow an autocratic style, where managers provide specific instructions on how tasks should be carried out. In contrast, teams in other departments, such as corporate finance, adopt a laissez-faire approach. Ultimately, the leadership style employed depends on the goals of the team or department, and the use of flexible leadership allows managers and team leaders to adapt to situations for optimal results.

3.6. Marketing Practices

3.6.1. Marketing Operations:

IDLC Finance focuses on promoting financial literacy and offering appropriate investment options to help people maximize their wealth. To achieve this, the company utilizes various marketing strategies. As a non-banking financial institution, IDLC applies strong marketing tactics to stay competitive with other commercial banks and financial entities. Some of their key marketing efforts include:

- **Direct Marketing Strategy:** Direct marketing allows IDLC to communicate directly with potential customers about the features of its financial products. The official IDLC website plays a vital role in this, featuring a "Contact Us" page with the contact details of branch managers. Customers can reach out via phone or email for inquiries. In addition, IDLC's sales team proactively contacts customers to provide updated information about financial products through phone calls and SMS. Customers are also encouraged to visit IDLC branches for in-person discussions. In today's digital age, IDLC has effectively embraced digital marketing to promote its financial products. Alongside TV ads, IDLC also leverages platforms like Facebook, YouTube, and LinkedIn to market its services. The company maintains active social media pages, posting weekly updates on services, job openings, and accomplishments. To engage customers, IDLC shares educational content such as short videos, quizzes, reels, and dramas.
- **Content and Influencer Marketing Strategy:** Consumer purchasing behaviors have evolved, especially among Gen Z, who are influenced by their favorite personalities. IDLC has tapped into this trend by featuring influencers in its marketing efforts. For example, IDLC publishes videos on its social media pages, focusing on topics like financial planning, savings, loans, and personal finance. These videos, often 15-20 minutes long, are hosted by influencers such as Ayman Sadiq and Sakib bin Rashid. When launching its Islamic finance services, IDLC also collaborated with Yousef Sultan to highlight the importance of Islamic financing.
- **Promotional Marketing Strategy:** IDLC engages in various promotional activities, not just for self-promotion but to contribute to the community. In 2023, the company organized the "IDLC Finance Olympiad 3.0," in collaboration with 10 Minute School, to recognize students with knowledge of finance. This initiative not only promoted IDLC but also aligned with its corporate social responsibility efforts by encouraging future customers. Additionally, IDLC sponsors the IDLC Prothom Alo SME Award, which recognizes outstanding performance in small and medium enterprises, further promoting its SME loans. Lastly, IDLC was the title sponsor of a national drama festival held at the Shilpokola Academy in 2019, which helped build a strong brand image for the company by supporting the country's cultural development.

3.6.2. STP Marketing:

- **Service Segmentation:** IDLC offers a wide range of services tailored to different customer segments. The company primarily divides its services based on demographic and geographic factors. In terms of demographic segmentation, IDLC considers factors such as age, gender, income, education, and occupation. For instance, as a non-banking financial institution (NBFI), it targets customers aged 24-76 with various financial schemes, including car loans, home loans, construction loans, business working capital loans, and more. Focusing on both young adults and retirees is advantageous for IDLC, as these groups are either working or have retired, making them potential savers. The services cater to both men and women with varying financing needs, particularly those in the middle and upper-income brackets. IDLC has also developed financial products aimed at individuals in the early stages of their education, such as a collaboration with bKash offering monthly and weekly DPS plans for parents with primary or secondary schoolchildren (The Daily Star, 2024). Professional degree holders are another key segment, as they often seek to store their savings in financial institutions through term deposits and are interested in property loans for purchasing homes. Additionally, IDLC targets individuals in various occupations, including employees and aspiring entrepreneurs, who may be interested in

SME loans. Geographically, IDLC focuses on major cities and commercial hubs, including the country's largest port city, land ports, manufacturing centers, and key apparel retailers. The company also aims to expand into the southwest region of Bangladesh, specifically targeting areas like Gopalganj, Khulna, and Barisal.

3.6.3. Targeting and Positioning:

- After segmenting its customer base, IDLC identifies specific groups to target. For example, when offering financial services for students, it focuses on elderly customers as parents. For corporate loans, it targets blue-chip companies, while for SME loans, young entrepreneurs are the primary audience. Effective positioning is crucial for a product's market acceptance and dominance, and this applies to services as well. To ensure accessibility, IDLC has established a presence with 40 branches, providing high-quality financial services to both current and potential customers. With the tagline "Financing Happiness," IDLC strives to bring happiness to its customers through its digital media and marketing strategies, as outlined earlier. To achieve this positioning, the company has invested in building a strong brand image and offering exceptional customer support, setting itself apart from competitors. Overall, IDLC's positioning strategy is modern, technologically advanced, and customer-focused.

3.6.4. Products and Services

IDLC's Various Business Loans

Table 1 List of typical business loans offered by IDLC Finance PLC

Name of the loans	Loan Duration	Loan amount in BDT
Business working capital loan	1 year	Up to 1 crore
Small and Medium Enterprise (SME) loan	13-26 months	Up to 5 crore
Women entrepreneurs loan	1 year	2-35 lakhs
Seasonal Business loan	1 year	Up to 1 crore
Abhashon commercial loan	20 years	80% of 1tc
Commercial vehicle loan	13-60 months	80% of the vehicle
SME shomvhabona loan	13-60 months	25 Lakhs
IDLC udvhabon business loan	13-60 months	Up to 1 cr & 35 lakhs without collateral.
Udvhabon startup business loan	60 lakhs	Up to 25 lakhs

- Car Loan: The maximum loan tenure is 6 years, with financing covering up to 85% of the total vehicle value. The borrower must have at least one year of job experience or three years of work experience.
- Personal Loan: The minimum loan amount is 1 lakh taka, with a loan tenure of up to 5 years. The borrower must have two years of employment history with their current employer.
- Corporate Loan: The corporate loan offers a variety of financing options, including term loans, project financing, working capital loans, lease financing, vehicle loans, commercial space loans, preferred stock, and bridge loans.

3.6.5. Marketing Channels

- One of the best channels for advertising goods and services these days is social media. IDLC frequently engages with customers on social media platforms like Facebook, YouTube, and LinkedIn to inform them about its offerings and services.
- IDLC operates its own official website, where customers can easily get in touch with branch officials to inquire about available services and communicate with the sales team.
- The company also invests in paid advertising. In addition to TV commercials, IDLC runs Google ad campaigns to extend its reach, targeting popular channels like Somoy TV and Channel I.
- IDLC also leverages referral programs and organizes events as part of its promotional efforts.

3.7. Operations Management and Information System Practices

3.7.1. Operational Practices

IDLC operates a dedicated operations department located at the Dilkusha Tower in Purana Palton, which serves as the hub for SME, corporate, and consumer functions. This department is responsible for managing all agreements, including loan processing, payment processing, legal verification, and other transactions. A major task is to arrange deed agreements and provide them when needed. For example, when a customer takes out a car loan, they must offer a fixed asset as collateral, and legal deeds are obtained from vendors. Once the deed agreement is received, the information about the consumer's asset is entered into the OCAS system. OCAS assigns two unique numbers to each deed: a four-digit SROS tracker and an eleven-digit identification number. These numbers are manually written on the deed's cover page before the deeds are scanned and saved on their desktops. The operation is updated after each installment payment, and the deeds are cross-checked to ensure they include all necessary pages, signatures, and thumbprints. Additionally, they ensure that updates to the core banking software, such as Flexcube, are properly maintained with the support of the central operations department. One of the strengths of IDLC's operations is the centralization of all functions under one roof, allowing for quicker communication and problem-solving between departments. They can also collaborate closely with the legal team. However, a major weakness is the continued reliance on manual processes. For example, interns in the operations department are tasked with scanning and renaming deeds with their identification numbers manually. Similarly, finding SROS trackers for legal or litigation purposes is also done manually.

3.7.2. IT Practices

IDLC Finance has incorporated various technological advancements to improve the efficiency of its operations. These include software systems and communication tools. The key practices are:

- **LYNC:** This system facilitates communication, allowing employees to join video or audio calls from anywhere in Bangladesh. It is used for communication with vendors, interdepartmental discussions, and meetings with department heads.
- **OSP (Online Service Platform):** This system allows consumers to access information about their loan processes, account openings, loan applications, and payment processing without the need to visit a physical branch.
- **OCAS (Online Credit Approval System):** This system helps track loans provided to consumers, including updates after installment payments and further assistance.
- **Flexcube:** This is the core banking software used by IDLC Finance to support various banking functions, such as customer account management, loan processing, and payment transactions (Finextra, 2012).
- **Microsoft Office Tools:** IDLC uses Microsoft Office tools like MS Word, MS Excel, and MS PowerPoint for documentation, calculations, and presentations. Microsoft Outlook is used for formal email communication.

4. Literature Review

Auditors are tasked with providing reasonable assurance that the financial statements of their clients are accurately presented and reflect the clients' actual economic activities (Hossain et al. 2024). To achieve this, auditors must plan and carry out the audit in a way that minimizes audit risk to an acceptable level. If the client is considered riskier, auditors would increase their audit procedures to gather enough appropriate evidence and charge higher audit fees (Akono, Choi, and Karim 2022; Hossain et al. 2024; Chang, Hsu, and Ma 2022).

Previous studies on audit fees indicate that the level of audit fees is determined by both the audit effort and the audit risk premium, which accounts for the auditors' anticipated losses due to litigation (Simunic 1980; Campbell, Duchac, Shi, and Stice 2023). Audit effort refers to the actions auditors take to minimize the risk of material misstatements, while the audit risk premium represents the expected compensation for potential material misstatements and non-audit risks (Espahbodi, Lin, Liu, Mock, and Song 2023).

In this study I am interested in understanding the impact of audit fees on a firm's stock market performance. Namely, I investigate whether stock return, return on assets, and trade volume are affected due to changes in audit fees charged by the external, independent auditors.

Previous literature has documented that operating loss tends to correlate with higher audit fees. The reasoning behind this is typically due to the increased complexity and risk associated with auditing companies facing financial difficulties, such as reporting an operating loss. In these cases, auditors may require more effort to assess the financial statements, the likelihood of future viability, and potential issues such as going concern doubts. The increased uncertainty and

potential for material misstatement generally lead to a higher audit risk, which auditors address by charging higher fees to cover the additional work and potential liabilities (e.g., Lim and Monroe 2022; Gao and Calderon 2023; Li et al. 2024).

Previous research has demonstrated that firms with a higher proportion of intangible assets incur higher audit fees, as auditors invest more effort and face increased litigation risk when auditing such firms (Datta et al. 2020; Zhang 2022). Datta et al. (2020) also reveal that audit fees are higher for firms with a greater likelihood of innovation success, as indicated by patents, citation-weighted patents, and pre-emptive R&D expenses. Similarly, Blankley, Hurtt, and MacGregor (2012) find that auditors charge higher fees to firms with a higher ratio of intangible assets to total assets. Prior studies also examine audit fees on highly volatile firms. Volatility in the financial market plays a major role for both traditional financial infrastructure and the more recent innovations like the cryptocurrency markets (Hossain, 2025; Hossain, 2025). Building on these studies, we investigate how IDLC's market performance is affected by the changes in audit fees charged by the auditors.

5. Analysis and Interpretation of the Data

5.1. IDLC's Audit Fees

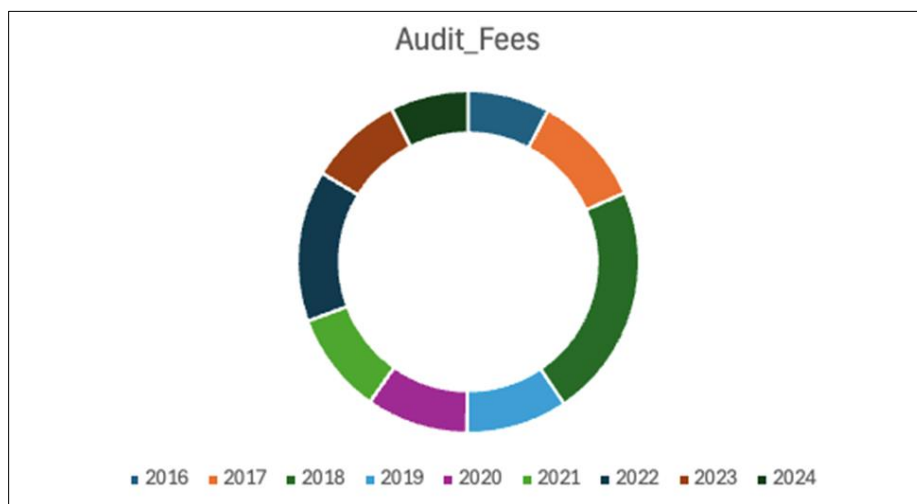


Figure 2 IDLC's audit fees over the years from 2016-2024

As part of understanding IDLC's audit fees and its market performance, first, I want to examine how much IDLC pays in audit fees over the last couple of years. From figure 2 I find evidence that IDLC's audit fees are fairly consistent over the years, with one year in particular, 2018, seeing the largest share of audit fees for the entirety of sample period of this study.

5.2. IDLC's Net Interest Income and Audit Fees

The graph compares net interest income (net_ii) and audit fees (AF_in_Millions) from 2016 to 2024. The x-axis represents the years, while the y-axis indicates values for both metrics. The audit fees (orange line) show a significant peak in 2018, reaching approximately 3 million, before declining and stabilizing around 1.5 million from 2019 to 2021, followed by another rise in 2022 and a gradual decline afterward. In contrast, net income (blue line) remains relatively low and stable throughout the period, with slight fluctuations. There is a minor increase around 2021, but net income declines steadily after 2022, eventually turning negative in 2024. The trend suggests that while audit fees experienced notable variations, net income struggled to grow, particularly in the later years.

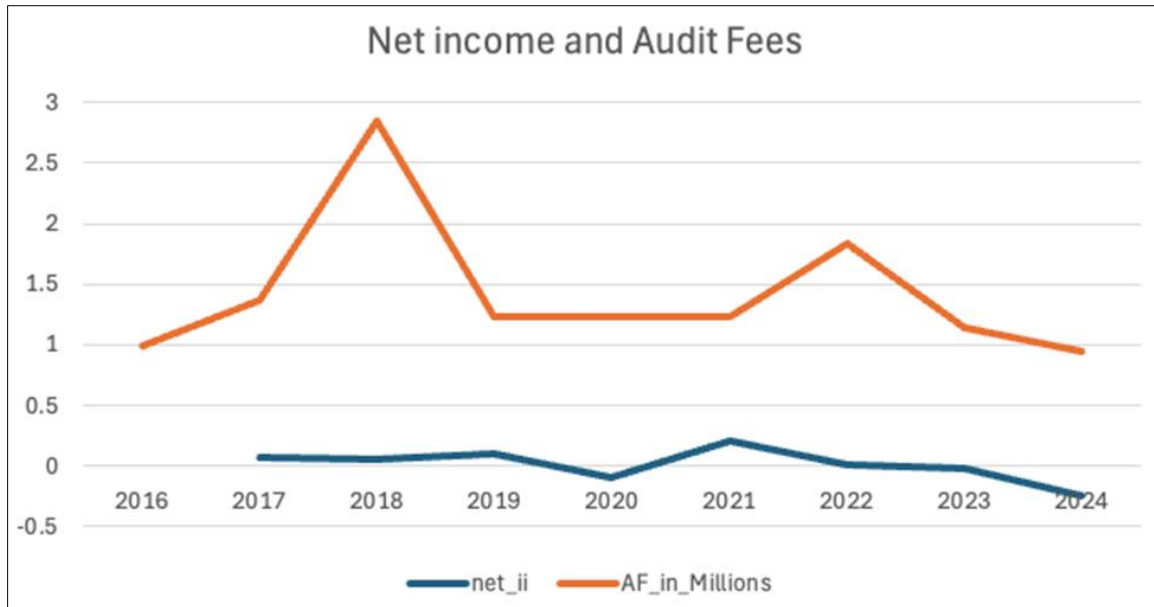


Figure 3 Time-trend relations of IDLC's net interest income and its audit fees between 2016-2024

5.3. IDLC's Stock Return

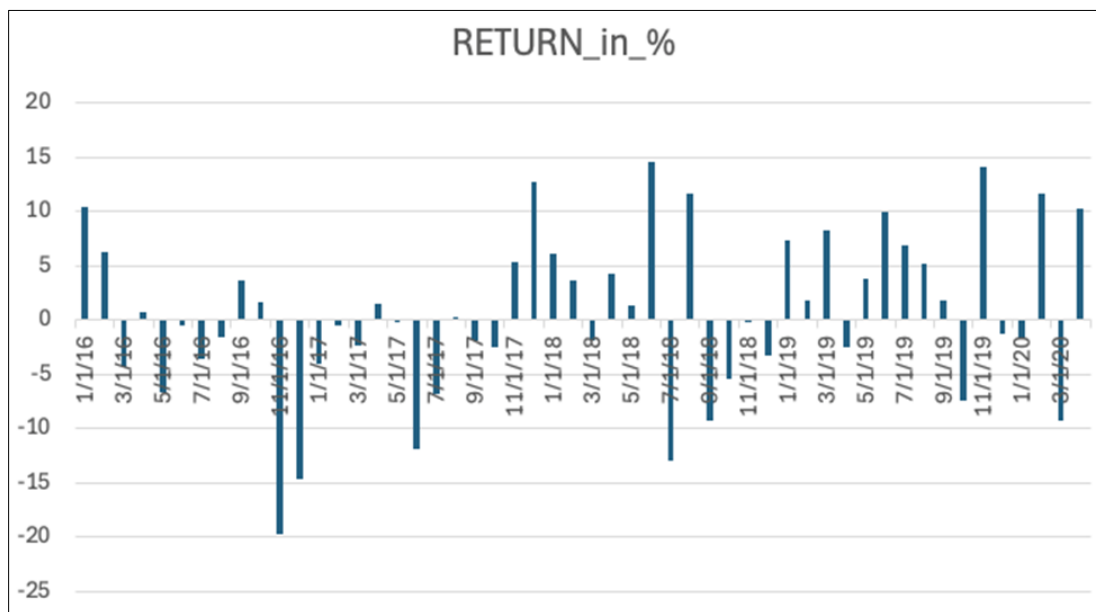


Figure 4 IDLC's stock returns over the years

Next, I want to understand IDLC's stock market return for the sample period of this study. Figure 4 shows percentage returns over time, spanning from early 2016 to early 2020. The x-axis indicates the date, while the y-axis shows returns in percentage. The data exhibits both positive and negative fluctuations, with several periods of significant losses, notably around mid-to-late 2016 and early 2018, where returns dropped below -20%. However, there are also periods of substantial gains, particularly in late 2017 and mid-2018, where returns exceeded 10%. Overall, the trend appears volatile, with returns frequently oscillating between gains and losses, suggesting a highly dynamic market environment during this period.

5.4. Audit Fees and ROA relationship

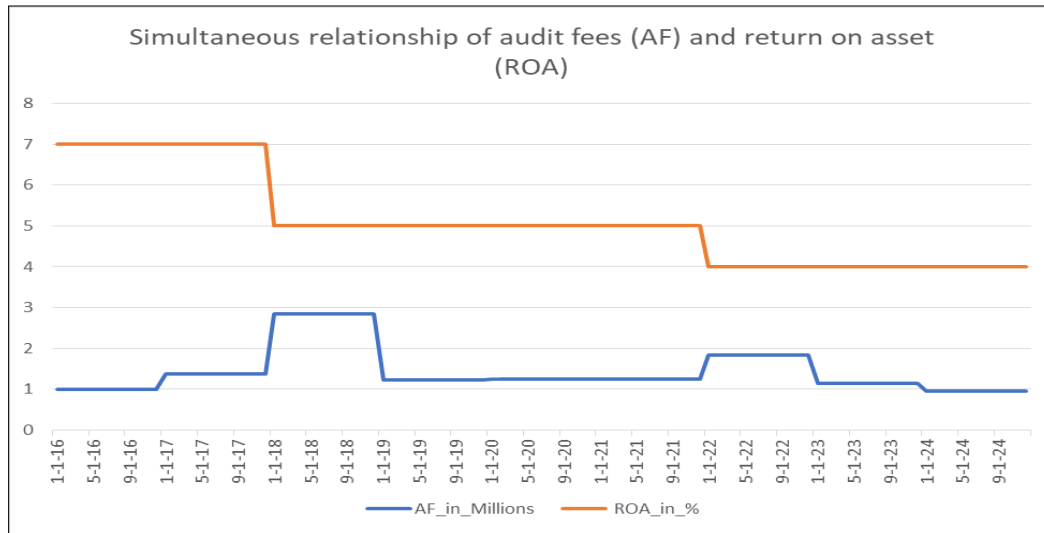


Figure 5 Audit Fees and ROA relationship over time

The analysis of the simultaneous relationship between audit fees (AF) and return on assets (ROA) suggests a notable trend where higher audit fees are predominantly associated with lower ROA. This inverse relationship may indicate that increased audit fees, often reflective of more comprehensive or stringent audit processes, could impose a financial burden on firms, thereby reducing their overall profitability as measured by ROA. The data, spanning multiple periods, highlights that firms facing higher audit costs may experience a drain on resources that could otherwise be allocated to growth initiatives or operational improvements. This trend is particularly pronounced in periods of economic uncertainty or heightened regulatory scrutiny, where the costs associated with compliance and audit quality may disproportionately impact financial performance. These findings underscore the complex trade-offs firms face between ensuring high audit quality and maintaining profitability. Future research could delve deeper into the underlying factors driving this relationship, such as industry-specific dynamics, firm size, and the effectiveness of internal controls, to provide a more nuanced understanding of how audit fees influence financial outcomes.

5.5. IDLC's Trade Volume

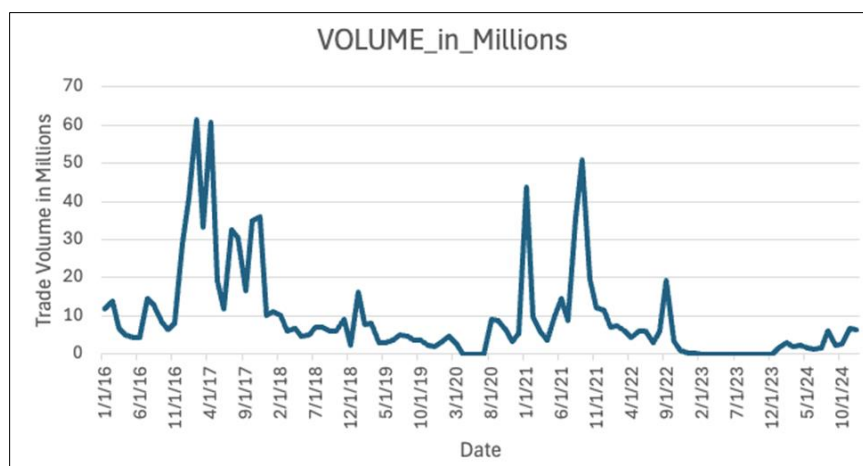


Figure 6 IDLC's trade volume between 2016-2024

This graph displays the trade volume in millions over time, spanning from early 2016 to late 2024. The x-axis represents the date, while the y-axis indicates the trade volume in millions. The data exhibits significant fluctuations, with notable peaks occurring around early 2017, early 2021, and mid-2021, where trade volumes spiked above 40 million. These peaks suggest periods of heightened trading activity, possibly driven by market events or external factors. After these surges, the volume appears to decline gradually, stabilizing at lower levels with occasional minor fluctuations. The most recent period, covering 2023 and 2024, shows relatively low and steady trade volumes compared to earlier years. In general, studies involving trade volumes for firms and/or countries shed important light on policy implications

(Hossain, 2025). Firms or publicly traded exchanges also sometime encourage margin trading bans or restrictions (or almost unrestricted permission in margin trading) to understand its impact on trade volume (Black et al., 2024).

Findings

This study investigates the influence of audit fees on IDLC Finance PLC's market performance, namely on stock returns, return on assets (ROA), and trade volume. The results indicate that higher audit fees are linked to a decline in both ROA and stock market performance. This aligns with existing literature, which suggests that investors perceive increased audit fees as an additional cost, potentially prompting some to shift their investments to firms with greater profitability prospects. Consequently, the observed reductions in ROA and stock returns are justified. Additionally, the study explores whether higher audit fees impact overall trade volume but finds no statistically significant evidence to support such an effect. These findings offer valuable insights for participants in the stock market.

While we can't generalize a decisive conclusion due to some of the limitations of this study, I believe this study helps us shed light on understanding the interplay between audit fees and its various market performance proxies (e.g., stock return, ROA, and trade volume). This study should help potential investors investigate who IDLC brings in as their auditors, and since public trust is involved in the auditing process, I believe this study carries sufficient merit.

Recommendation

To enhance IDLC's Performance in the market while effectively addressing audit fees, the following recommendations can be implemented:

- **Make sure audit costs are transparent and justified** by including them in financial statements and providing explanations to reassure investors about sound financial management. Describe how audit fees have changed over time and how this has affected financial performance.
- **Reduce Audit Expenses Without Sacrificing Quality** To make sure audit costs are still reasonable and competitive, compare them to peers in the industry. While upholding strict audit requirements, bargain with auditors for reasonable prices.
- **Improve Internal Controls to Lower the Risk of Audits** Invest in robust internal auditing procedures to lower mistakes and improve the accuracy of financial reporting. Use data analytics and automation in internal auditing to increase productivity and reduce expenses associated with external audits.
- **Maintain the Market Perception and Audit Fee in Balance** While abnormally low costs may raise questions about the quality of the audit, a sudden surge in fees might indicate financial danger. Continue to take a balanced stance. To bolster investor trust and financial statement authenticity, work with respectable audit companies.
- **Review and rotate auditors on a regular basis.** Rotating auditors on a regular basis can improve audit quality and lower long-term price increases. Make sure the transfer goes well if you're switching auditors to avoid financial reporting interruptions.
- **Utilize Technology to Enhance the Audit Procedure** To increase productivity and lessen the workload associated with audits, promote the usage of AI and automated solutions. Implement technology-driven audits that improve accuracy and cost-effectiveness in close collaboration with auditors.
- **Enhance Investor Communication:** Inform investors about the company's financial standing and the need for audit fees. Emphasize in investor reports and briefings how audit fees support improved governance and sustained profitability

6. Executive Summary

In this study, I examine the impact of audit fees on IDLC Finance PLC's stock return and return on assets (ROA). I find evidence that increased audit fees are linked to a reduction of both the ROA and its stock market returns. This observation aligns with the literature suggesting that investors deem an increase in audit fees as a cost and, maybe, some of them are more likely to switch to other firms for a higher likelihood of profitability there. Thus, the findings of the lower ROA and stock return are reasonable. I also test if overall trade volume is also affected due to increased audit fees and find no statistically significant evidence of that. This study has implications for stock market participants.

Every financial institution aims to achieve several objectives, including generating enough profit to pay dividends, providing shareholders with a reasonable return on investment, and reinvesting in the company by motivating employees, satisfying customers, and improving its reputation in the community. To achieve these goals, the management of any financial institution must primarily focus on utilizing its financial resources effectively. From the

analysis of this study, I find evidence suggesting that IDLC Finance PLC tries to achieve its stated goals by incorporating all of its resources

List of Acronyms

- SME: Small and Medium-sized Enterprise
- NBFI: Non-Banking Financial Institution
- CRM: Credit Risk Management
- CSR: Corporate Social Responsibility
- UNEP FI: United Nations Environment Programme Finance Initiative
- LEIC: Local Enterprise Investment Centre
- OSP : Online Service Platform
- OCAS : Online Credit Approval System
- GDP: Gross Domestic Product

7. Conclusion

IDLC Finance PLC is the largest and most prominent NBFI in Bangladesh. In this study, I analyze the effect of audit fees on IDLC Finance PLC's stock returns and return on assets (ROA). The results show that higher audit fees are linked to a decline in both ROA and stock market returns. This is in line with existing literature, which suggests that investors view an increase in audit fees as an added cost, and some may even consider switching to other companies with a higher potential for profitability. As a result, the observed decrease in ROA and stock returns is understandable. Additionally, I examine whether overall trade volume is impacted by the rise in audit fees and find no significant evidence to support this. The findings of this study are relevant for stock market participants.

Every financial institution has various goals, such as generating sufficient profit to pay dividends, ensuring a reasonable return for shareholders, and reinvesting in the company through employee motivation, customer satisfaction, and enhancing its community reputation (Hossain, 2024). To achieve these objectives, financial institutions must focus on efficiently managing their financial resources. Based on the analysis in this study, I find that IDLC Finance PLC strives to meet its goals by effectively utilizing all of its resources.

Compliance with ethical standards

Acknowledgments

I deeply appreciate their constructive leadership, invaluable guidance, and the positive environment they fostered during this project. I have gained a lot from their insightful feedback and suggestions on various aspects of the project. My sincere thanks and respect go to my supervisor, Assistant Professor Nusrat Jahan of MIS, for her guidance and advice while writing this report.

I am fortunate to have had the opportunity to work on my internship with IDLC Finance PLC, which provided me with an excellent opportunity for learning and professional growth. I am grateful to have interacted with the talented individuals and experts who contributed to my internship.

This experience has been a significant milestone in my career development. As I work towards achieving my career objectives, I am committed to making the most of the skills and knowledge I have acquired, and I will continue to enhance and build upon what I have learned.

Disclosure of conflict of interest

No conflict of interest to be disclosed.

References

- [1] Akono, H., H. Choi, and K. E. Karim. 2022. Convertible debt usage and the pricing of audit services. *Accounting Horizons* 36 (3): 21-43.
- [2] Black, J., Hossain, J., & McFarland, S. (2024). Margin Trading and Price Dynamics on Cryptocurrency Exchanges. Available at SSRN 4881388.

- [3] Chang, H., C. Hsu, and Z. Ma. 2022. Does product similarity of audit clients influence audit efficiency and pricing decisions? *Journal of Business Finance and Accounting* 49: 807-840.
- [4] Simunic, D. A. 1980. The pricing of audit services: Theory and evidence. *Journal of Accounting Research* 18 (1): 161-190.
- [5] Campbell, J. L., J. E. Duchac, W. Shi, and D. Stice. 2023. The association between stock liquidity and audit pricing. *Auditing: A Journal of Practice & Theory* 42 (2): 53-74.
- [6] Espahbodi, R., J. Lin, N. Liu, T. J. Mock, and M. Song. 2023. The effect of reporting key audit matters on audit fees and financial reporting quality: Evidence from Hong Kong. *Journal of International Accounting Research* 22 (2): 83-102.
- [7] Hossain, M. J. (2024). Three Essays in Leverage ETFs and Cryptocurrency Price Dynamics. The University of Memphis.
- [8] Hossain, J., Bhuiyan, J., Rahman, A., & Dao, M. Accounting-Driven Losses and Trade Credit. Available at SSRN 4976662.
- [9] Hossain, J. (2025). Boosting trade volume using local currencies: Evidence from China and Russia. Available at SSRN 5159481.
- [10] Hossain, J. (2025). An examination of volatility spillover in major Bitcoin currency pairs. Available at SSRN 5160830.
- [11] Hossain, J. (2025). Volatility Dynamics and Spillover Effects of Cryptocurrencies in Major Crypto Exchanges: An Empirical Analysis. Available at SSRN 5159623.
- [12] Lim, Y., and G. S. Monroe. 2022. Analyst coverage and audit fees: International evidence. *Journal of Accounting, Auditing & Finance* 37 (2): 466-492.
- [13] Gao, L., and T. G. Calderon. 2023. Climate change risk disclosures and audit fees: A text analytics assessment. *Journal of Emerging Technologies in Accounting* 20 (2): 71-93.
- [14] Li, H., Z. Sun, and F. Huang. 2024. The impact of audit office cybersecurity experience on nonbreach client's audit fees and cybersecurity risks. *Journal of Information System* 38 (1): 177-206.
- [15] Datta, S., A. Jha, and M. Kulchania. 2020. On accounting's twenty-first century challenge: Evidence on the relation between intangible assets and audit fees. *Review of Quantitative Finance and Accounting* 55: 123-162.
- [16] Zhang, Y. 2022. Research and development expenditure, audit fees, and corporate social responsibility disclosure: Evidence from Chinese listed firms. *Asia-Pacific Journal of Financial Studies* 51: 431-458.
- [17] Blankley, A. I., Hurtt, D. N., & MacGregor, J. E. (2012). Abnormal audit fees and restatements. *Auditing: a journal of practice & theory*, 31(1), 79-96.
- [18] IDLC Finance PLC Integrated Annual Report. (2024). In idlc.com. IDLC. https://web.idlc.com/uploads/financial_report/idlc-annual-report-2023-941983.pdf
- [19] IDLC Official website <https://idlc.com/idlc-at-a-glance>
- [20] IDLC Official annual and quarterly financial reports <https://idlc.com/financial-reports>
- [21] IDLC Stock Market data <https://www.investing.com/equities/idlc-finance-ltd-historical-data>