THE IMPACT OF INDEPENDENT AUDIT REPORTS ON BANK FINANCIAL PERFORMANCE:

EVIDENCE FROM THE TURKISH BANKING SYSTEM

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ABSTRACT

This study examines the effect of auditors' opinions included in independent audit reports on bank performance in the Turkish banking sector. Within this scope, data from ten banks listed on Borsa Istanbul were used. Tobin's Q ratio was used to represent bank performance, while return on assets, return on equity, and the capital adequacy ratio were used as financial indicators. Independent audit report opinions were modeled using a dummy variable. The Panel Vector Autoregressive (PVAR-GMM) approach was employed to determine the dynamic relationships among the variables. In addition, the Granger causality test, impulse response functions, and variance decomposition analyses were applied. Before the analysis, homogeneity, cross-sectional dependence, and second-generation panel unit root tests were conducted.

The findings indicate that return on equity negatively affects bank performance, whereas the capital adequacy ratio and unqualified audit opinions positively affect bank performance. The Granger causality results also reveal the existence of unidirectional causal relationships running from return on equity, the capital adequacy ratio, and independent audit opinions to bank performance. As a result, it was concluded that independent audit reports are not only a legal requirement but also an important source of information that can affect bank performance.

Keywords: Independent Audit, Bank Performance, PVAR-GMM, Auditor Opinion