

**KWAME NKRUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY,
KUMASI**

**DOES AUDITOR TENURE, AUDIT FEES AND AUDIT FIRM SIZE AFFECT
AUDIT QUALITY? EMPIRICAL EVIDENCE OF LISTED FIRMS IN
GHANA**

BY

HANNAH ODONKOR

(20832253)

(MSC ACCOUNTING AND FINANCE IDL)

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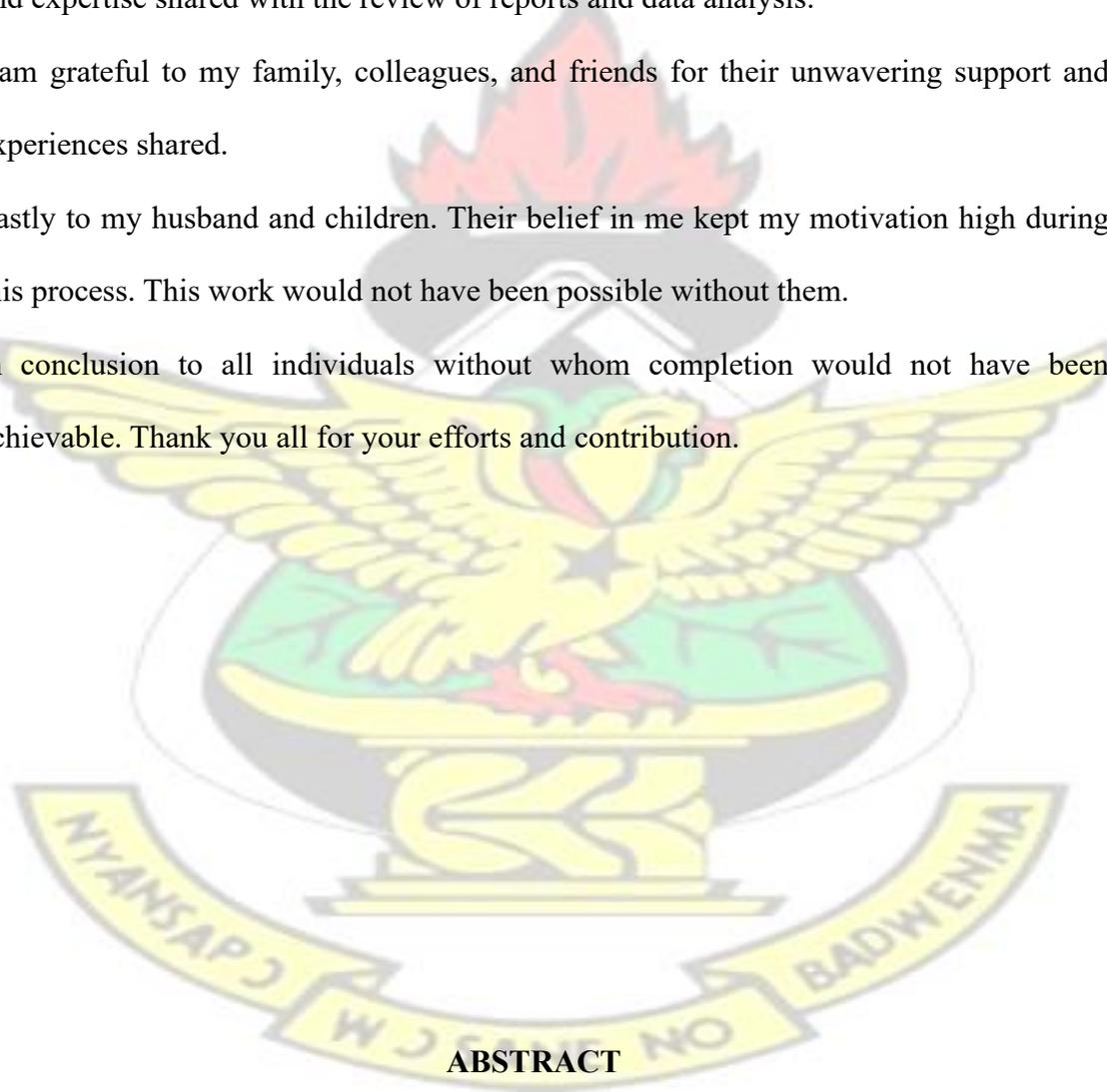
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ABSTRACT

The general objective of the study was to examine audit tenure, audit fees and audit firm size on audit quality of listed firms in Ghana. The study's design was explanatory. Sixteen non-financial businesses registered on the Ghana stock exchange provided data

for this study. The period covered was from 2010-2021. The dependent variable was audit quality. The independent variables were audit fees, audit firm size and auditor tenure. The control variables were firm size, leverage, audit committee size and profitability. The data was analysed using random effect regression. The study found that auditor tenure had a significant positive effect on audit quality. Audit fees had a significant negative effect on audit quality. However there was no significant effect between audit firm size and audit quality. Firms should engage in open and transparent fee negotiations with audit firms, clearly communicating the importance of maintaining audit quality and the potential impact of fee reductions on the resources allocated to the audit engagement. They should emphasize the balance between cost considerations and the resources required for a comprehensive and effective audit. They should prioritize audit firms that demonstrate a commitment to delivering high-quality services.

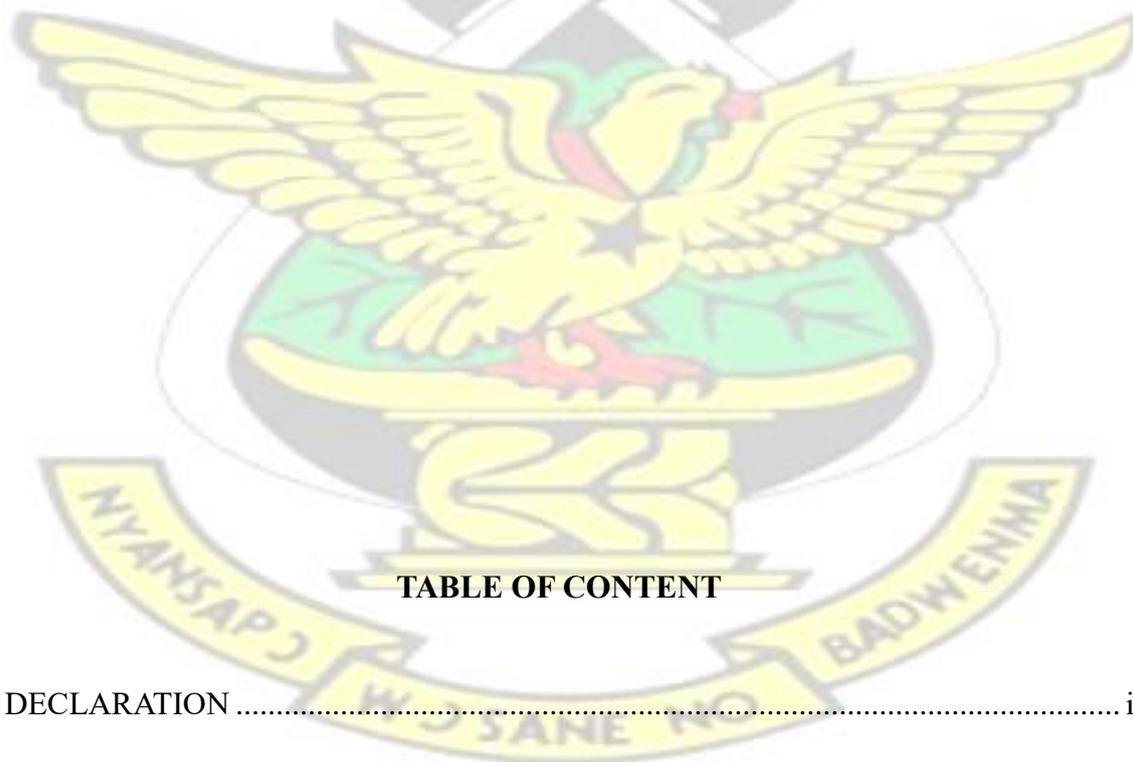


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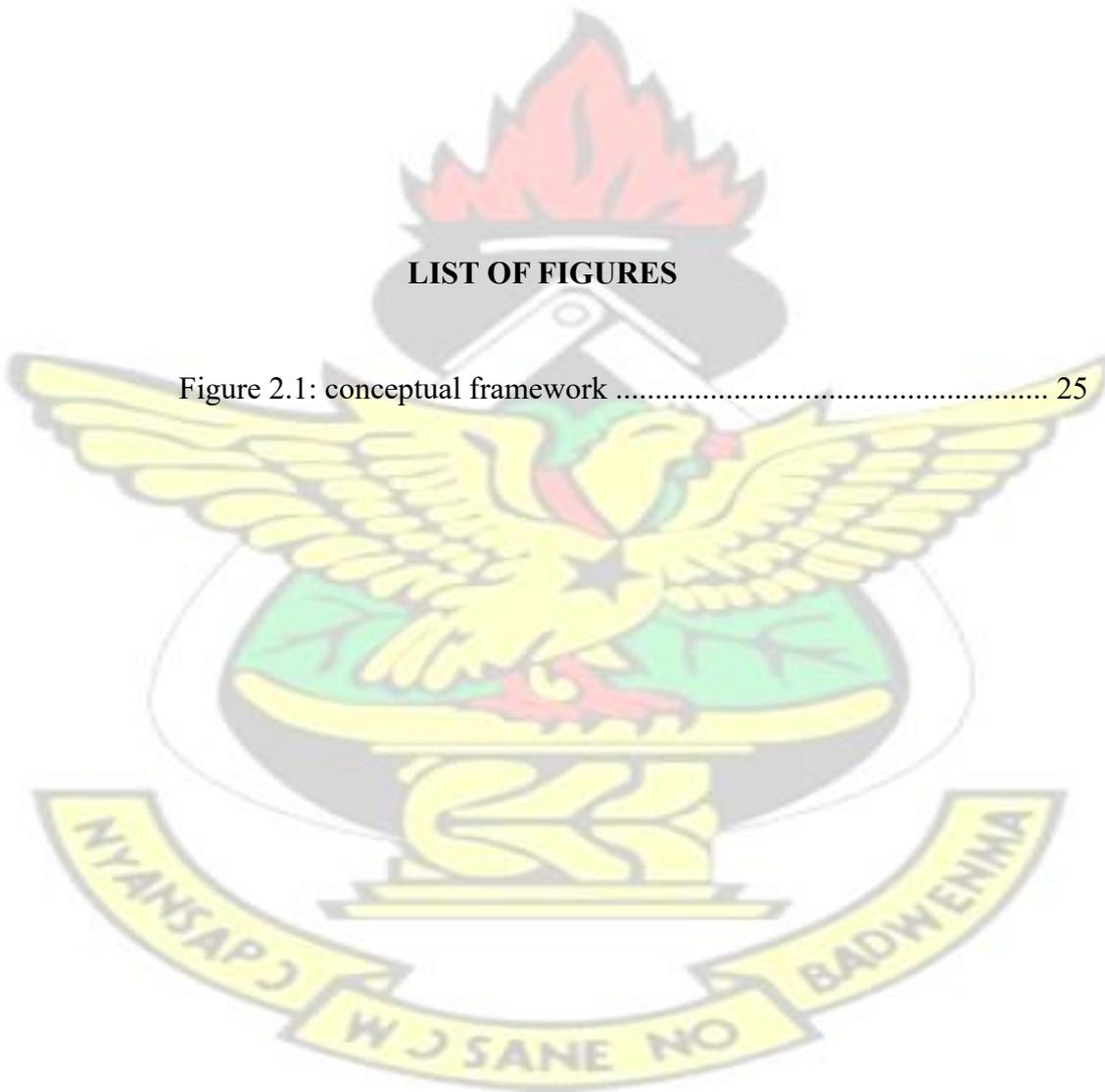
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CHAPTER ONE

INTRODUCTION

1.0 Background of the Study

The effective operation of global financial markets and the development and stability of the global economy as a whole depend on investor trust. Audits and audit opinions on financial reports offer investors with the comfort that the information they use to make investment choices is correct (MohammadRezaei, 2018). Independent auditors who testify to the correctness of financial records may strengthen the credibility of financial information generated by firms, governments, and other organisations. Management is ultimately responsible for the accuracy of the financial statements, but external auditors provide an additional, independent level of confidence (Milašinović, Knežević and Mitrović, 2022).

To what extent an audit is deemed satisfactory relies on the standards by which it is evaluated. A financial report's users, auditors, regulators, and the general public all have various priorities when it comes to determining an audit's quality. Users of financial reports, for instance, believe that high audit quality indicates that there are not any major errors. However, auditors believe that high audit quality means that all of the duties needed by the company's audit methodology were successfully completed (Gonthier-Besacier, Hottegindre and Fine-Falcy, 2016). To regulators, a high-quality audit is one that prevents financial difficulty for the firm or the market, and this perception is supported by an audit that complies with professional standards (Persellin, Schmidt, Vandervelde and Wilkins, 2019).

Barr-Pulliam, Brown-Liburd and Sanderson (2022) state that the probability that an auditor would discover and disclose an error in the client's accounting system is the traditional definition of audit quality. According to the available literature, adequate audit quality is more readily apparent in larger audit firms than in smaller ones (Sari, Diyanti and Wijayanti, 2019). One explanation for this is that larger corporations are in a better position to meet the needs of a larger client base and provide a broader selection of products and services to those consumers. Thus, reliance on a few customers becomes less important (Sari, Diyanti and Wijayanti, 2019).

El-Dyasty and Elamer (2020) claim that major auditing companies do superior audits versus their smaller rivals, despite the fact that several of these businesses have been embroiled in high-profile cases in recent years. Because material errors are difficult to uncover in the early audit-client relationship and hence risk the accuracy of clients' accounting reports, prior research (Qawqzeh, Endut, Rashid, Johari, Hamid, and Rasit, 2018; Jadiyahappa, Hickman, Kakani and Abidi, 2021) has shown that audit tenure has a beneficial influence on audit quality. However, when an auditor stays with a client for a long time, they often find that they shares values with the company's management hence the auditor's scepticism regarding the client's accounting practises and audit methodologies decreases with long audit tenure. Also the auditor's independence and neutrality may be eroded as a result of a more casual interaction with clients over time, which might lead to a drop in audit quality (Qawqzeh, Endut, Rashid, Johari, Hamid, and Rasit, 2018; Jadiyahappa, Hickman, Kakani and Abidi, 2021).

Therefore, one school of thought suggests that longer auditor tenures, with their accompanying greater auditor learning, would result in better audit quality. While

another argue that a tight relationship between an auditor and their client really undermines audit quality by compromising the auditor's independence and impartiality. This study therefore examines auditor client relationship and its effect on audit quality.

1.1 Problem Statement

It is essential for investors to have access to dependable financial information in order for them to be able to make choices that are better informed, and an audit may be able to assist alleviate information asymmetry while also helping to cut down on agency cost (Abad, Sánchez-Ballesta and Yagüe, 2017). In addition, auditors may provide an impartial evaluation of the financial statements provided by management by checking for misstatements and accounting errors. Therefore, the quality of the audit adds to the accuracy of financial reporting, and the cost of capital is reduced to the degree that doing business with the company is less costly.

However, research (Yanti and Wijaya, 2020; Kamil, 2020) demonstrates that factors such as audit firm size, auditor tenure, and auditor fees all influence audit quality. The argument for a larger audit company size is that larger companies have more resources and are thus better equipped to sell their services and develop a positive reputation. Due to their better resources, research facilities, testing skills, and technical prowess, they are able to do more than their smaller rivals (Abidin, and Triani, 2022). Also higher audit fees are often associated with more audit effort and competence, both of which lead to a higher audit quality (Yahaya and Onyabe, 2022). However, if the auditor's pay is dependent too much on audit fees, they may be less motivated to uncover and disclose serious financial statement misstatements (Yanti, and Wijaya, 2020). Both positive and

negative relationships between auditor tenure and audit quality have been identified by researchers (Karno, Aulia, Panorama, and Aldiansya, 2022; Jadiyappa, Hickman, Kakani, and Abidi, 2021; Pesudo and Nugroho, 2022). Two separate lines of thought have been put out in the past to account for the purportedly positive correlation between audit experience and audit quality.

The first argument is that auditors cannot conduct a high-quality audit if they only deal with a client for a short time, since they may lack sufficient expertise about the client (Karno, Aulia, Panorama, and Aldiansya, 2022; Pesudo and Nugroho, 2022). Due to the auditor's increasing acquaintance with the client's company and reporting challenges, audit quality is enhanced. Critics of long-term auditors, on the other hand, argue that this practise decreases audit quality by making auditors less unbiased (Adeniyi and Mieseigha, 2013). An alternative viewpoint is that auditors grow more susceptible to threats in order to "turn a blind eye" to unlawful management conduct as their affections for the client develop over time (Buntara and Adhariani, 2019).

Despite these arguments, the literature on the effect of audit firm size, auditor tenure, and audit fees is limited especially in Ghana. Ghanaian studies have focused on corporate governance and audit quality (Agyei-Mensah, 2019; Agyei-Mensah and Yeboah, 2019; Coffie, Bedi and Amidu, 2018). This leaves a research gap in literature to be addressed. This study, therefore, examines the effect of auditor tenure, audit fees and audit firm size on audit quality of listed firms in Ghana.

1.2 Aims and Objectives

The purpose of the study is to examine the effect of audit tenure, audit fees and audit firm size on audit quality of listed firms in Ghana. The specific objectives are:

1. To examine the effect of auditor tenure on audit quality
2. To examine the effect of auditor fees on audit quality
3. To examine the effect of audit firm size on audit quality

1.3 Research Questions

1. What is the effect of auditor tenure on audit quality?
2. What is the effect of auditor fees on audit quality?
3. What is the effect of auditor type on audit quality?

1.4 Significance of the Study

Firstly, the findings can help regulators to better understand the factors that influence the quality of auditing services, which can aid in the development of more effective regulations and guidelines for the auditing industry.

Secondly, the study can help investors to identify potential conflicts of interest that may arise in the auditor-client relationship, which can inform efforts to mitigate those conflicts and improve the overall integrity of the auditing process.

Thirdly, the study can also help researchers to better understand how different auditor-client relationship dynamics may impact the financial reporting process and the accuracy of financial statements thereby serving a basis to conduct further research.

Finally, the study can help to increase public understanding of the auditor-client relationship and the role that auditors play in ensuring the integrity of financial reporting, which can inform public policy and regulatory efforts.

1.5 Scope and Limitation of the Study

The study covers companies in Ghana specifically those listed on the Ghana stock exchange. The firms shall be sampled based on availability of data from the annual reports. The study is limited to the Ghanaian market hence making the findings not extrapolatable to other markets.

1.6 Methodology

The design for the study is quantitative due to the nature of the study where data has to be tested to established pattern of association. The variables for the study are: independent variables; auditor tenure, auditor fees and auditor type, Dependent variable; audit quality, control variables; leverage, size, profitability and audit committee size. The data is tested using multiple regression to establish pattern of association.

1.7 Organisation of the Study

The study is completed in five chapters. The first chapter establishes the background and provide justification for the study in the problem statement. The research questions, objectives, significance, scope and methodology are presented in this same chapter. Chapter two explains the concepts of the study and also provides a theoretical

foundation for the study also summary of previous studies and the conceptual framework is presented. Chapter three is explains how the research is carried out. The chapter the design population and sample as well as analysis method and the study variables. The chapter four presents the findings and also the discussions of the findings. The summary and conclusion as well as recommendation of the study are presented in chapter five.



CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter reviews the theoretical, conceptual and empirical studies employed in this research work with the sole purpose of thoroughly explaining the study.

2.2 Conceptual Review

2.2.1 Audit Fees

According to Cho, Kwon, and Krishnan (2021) audit fees are the charges that an audit firm imposes on its clients for its professional services, including auditing, assurance, and other related services. Audit fees can also be seen as the cost of conducting an audit, which includes the expenses incurred by the auditor in conducting the audit, such as staff time, travel expenses, and other costs associated with the audit process (Gandía and Huguet, 2021). Salehi, Zimon, Tarighi, and Gholamzadeh (2022) explain that audit fees can be viewed as a reimbursement for the services provided by the audit firm, including the time and resources that the firm invests in the audit process.

According to Sari, Diyanti, and Wijayanti, (2019), audit fees are the costs that public accountants pass on to their customers in exchange for performing financial audit services. If the cost of the audit is reasonable in relation to the scope of the audit and the time required to complete it, then it is appropriate

Fees for audits are often outlined in the contract that is negotiated between the auditor and his client. This contract takes into consideration the length of time the audit will

take, the services that will be required, as well as the number of individuals that will be required for the audit. Usman, Ezeani, Salem, and Song (2022) explain that larger companies require more audit work, which can increase the fees charged by the auditing firm. Also companies operating in complex industries, such as financial services or healthcare, may require more audit work and specialized expertise, which can increase audit fees.

Audit fees can vary depending on the region or country where the company operates, due to differences in labour costs and regulatory requirements. The complexity of the audit, including the level of risk involved, can affect audit fees. Higher risk audits require more time and resources from the auditing firm, which can increase the fees charged. Urgent or expedited audits may require auditors to work overtime or on weekends, which can increase fees (ElGammal, and Gharzeddine, 2020).

2.2.2 Audit Firm Size

Ubwarin, Setyorini, and Bawono (2021) define audit firm size by its geographical presence, which refers to the number of offices and countries the firm operates in. However Faizah, Ferisha, Belinda, and Meiden (2022) define audit firm size by its market share, which is the percentage of the total market that the firm serves. Abidin, and Triani (2022) define audit firm size by client portfolio which includes the number and types of clients the firm serves. This includes the firm's expertise and ability to handle a wide range of industries, as well as its reputation and reputation for delivering high-quality services. Audit firms are classified into big four and the others.

The "Big Four" refers to the four biggest international professional services networks globally. These networks provide a diverse array of services including auditing, assurance, tax, consulting, advising, actuarial, corporate finance, and legal services. The "Big Four" refers to the prominent accounting firms, namely Deloitte, PricewaterhouseCoopers, Ernst & Young, and KPMG. The four corporations in question have been often referred to as the "Big Four" because of their significant market domination, extensive worldwide presence, and established reputation for delivering exceptional services to a wide range of enterprises, spanning from small startups to large conglomerates (Adeniyi, 2020).

The "Big Four" audit firms have a significant presence in many countries around the world and are known for their expertise in various industries, such as financial services, technology, healthcare, and energy. They are also known for their large size, global reach, and ability to provide a wide range of professional services, including audit and assurance, tax, consulting, and advisory services.

2.2.3 Auditor Tenure

Auditor tenure is defined as the length of time that a particular auditor has been working with a specific client or organization indicating the level of experience and familiarity the auditor has with the client's operations and financial statements (Hsieh,

Kim, Wang, and Wang, 2020).

Auditor tenure can also be seen as a measure of continuity, as a longer auditor tenure may lead to greater stability and reliability in the audit process (Suwarno, Anggraini, and Puspawati (2020). A longer auditor tenure may also be seen as a sign of independence, as it can indicate that the auditor is not easily swayed by the interests of

the client or other external factors. According to Martani, Rahmah, Fitriany and Anggraita (2021) auditor tenure is often associated with the knowledge and understanding that an auditor has of a client's financial statements, business operations, and risks. The longer an auditor has been with a client, the more likely they are to have a deep understanding of these factors.

Auditor tenure can also be viewed as a measure of the relationship between the auditor and the client, as a longer auditor tenure may indicate a stronger working relationship and greater trust between the two parties (Patterson, Smith, and Tiras, 2019). If the auditor consistently produces high-quality audits, they are more likely to be retained by the company over a longer period. The more complex the client's operations, the longer it may take for an auditor to become familiar with the client's business and audit requirements, potentially leading to longer auditor tenure (Buntara, and Adhariani, 2019).

Riyani, Setyawati, and Husadha (2021) Auditor experience: More experienced auditors may have a better understanding of the client's business and operations, which can lead to more effective and efficient audits, potentially leading to longer auditor tenure. Also auditor tenure can be extended If an auditor develops strong personal relationships with key personnel at the client company, this may increase the likelihood of being retained as the auditor for a longer period (Khaksar, Salehi, and Lari DashtBayaz, 2022).

2.2.4 Audit Quality

According to Yopie and Elivia (2022) audit quality can be defined as the accuracy and reliability of the auditor's findings and conclusions. It refers to the degree to which the auditor has effectively assessed the financial statements and identified any material misstatements or errors. Audit quality can also be seen as the degree to which the audit process complies with professional standards and regulatory requirements, such as International Standards on Auditing (ISA) or the Sarbanes-Oxley Act (Yopie and Elivia, 2022),

Audit quality can be viewed as a measure of the professional judgment and expertise of the auditor, and the degree to which they have applied appropriate audit procedures and obtained sufficient evidence to support their conclusions (Al-tae, and Flayyih, 2022). Audit quality can also be related to the auditor's objectivity, as an auditor with high quality is expected to be impartial and unbiased in their work.

Audit quality includes the timeliness of the audit, as the earlier an auditor identifies any material misstatements or errors, the more likely it is that the client can take corrective action. It also includes the auditor's commitment to continuous improvement, as auditors who continuously strive to improve their processes and procedures are more likely to deliver high-quality audits (Samagaio and Felício, 2022).

An auditor's ability to understand and apply auditing standards, accounting principles, and relevant regulations is essential to performing high-quality audits. Competence is also demonstrated by the auditor's ability to identify and assess risks, design effective audit procedures, and evaluate audit evidence (Alhababsah, and Yekini, 2021). Independence is a critical aspect of audit quality because it helps ensure that the auditor

remains unbiased and free from conflicts of interest. Independence is achieved by avoiding any financial, personal, or other relationships that could impair the auditor's objectivity (Alhababsah, and Yekini, 2021).

Objectivity is closely related to independence and refers to an auditor's ability to maintain an impartial perspective and exercise professional judgement without being unduly influenced by the client or any other external factors. It is important because it helps ensure that the auditor's conclusions are based on the facts and evidence gathered during the audit and are not influenced by personal biases or external pressures. Objectivity is particularly relevant to the audit process because auditors are often required to make subjective judgements based on their professional judgment and experience (Jadiyahpa, Hickman, Kakani, and Abidi, 2021).

Also professional skepticism is important for audit quality. Professional skepticism is an important mindset that auditors should possess, allowing them to maintain a questioning attitude and critically evaluate the evidence. It involves being alert to potential fraud or errors and not accepting the information provided by management at face value (Dakhli, 2022). Audit quality is also affected by auditing standards and procedures and quality control processes (Mardessi, 2022). Adherence to professional standards, such as the International Standards on Auditing (ISAs), is crucial to ensure that the audit is conducted in accordance with accepted best practices. Adherence to these standards ensures that the auditor is consistent in their approach and methodology. The quality control processes implemented by the audit firm or organization are essential to maintain audit quality. These processes include policies and procedures for

selecting, training, and supervising auditors, as well as monitoring the quality of audits performed.

2.2.4.1 Determinants of Audit Quality

Client Firm size: The magnitude of a client business has a substantial impact on the quality of the audit. Larger corporations often exhibit a greater degree of operational complexity, including a wide array of financial instruments and extensive transactional processes (Muhammad, Muqorobin, and Narullia, 2022). As a result, auditors have increased difficulties in obtaining a thorough grasp of the financial environment of the organisation. In order to ensure the maintenance of high standards in auditing, it is essential for auditors employed by bigger organisations to possess the requisite knowledge and skills necessary to effectively traverse the intricate and multifaceted nature of the auditing process. Additionally, it is common for bigger corporations to have a wider range of stakeholders, which in turn requires them to engage in more precise and transparent financial reporting practises in order to preserve investor confidence. The capacity of auditors to proficiently navigate these intricacies and accommodate the requirements of bigger organisations enhances the overall quality of the audit.

Profitability: The concept of profitability is intimately linked to the quality of audits. Firms exhibiting more profitability may possess enhanced appeal to prospective investors and lenders (Yahaya and Onyabe, 2022). As a result, there may exist heightened motivations to engage in the manipulation of financial statements with the intention of presenting a more advantageous financial standing. The function of auditors in assuring the correctness of reported earnings is of paramount importance in

upholding the integrity of financial reporting. Increased profitability might potentially facilitate the allocation of more resources by enterprises, so strengthening the internal control environment and subsequently increasing the probability of producing accurate financial statements.

Audit committee size: The number and character of the audit committee are significant factors that influence the quality of audits. The presence of a bigger audit committee often suggests a broader array of experience and opinions. The presence of diverse individuals among the auditors and committee facilitates the establishment of efficient supervision and communication channels. A well organised and actively involved audit committee has the potential to provide auditors with significant insights, so augmenting the comprehensiveness and precision of the audit process (Kamil, 2020). Furthermore, the presence of a bigger audit committee enhances its capacity to scrutinise and question the statements made by management, so fostering an environment characterised by openness and accountability. This, in turn, leads to an improvement in the quality of audits conducted.

Leverage: The concept of leverage pertains to the extent of debt in relation to equity, and it has a significant impact on a company's financial risk and stability. Elevated levels of debt have the potential to amplify financial risks and may result in heightened financial strain on companies (Aljaaidi, Abidin, and Hassan, 2021). In such circumstances, there is an increased probability of encountering financial difficulties or insolvency, which compels auditors to thoroughly evaluate the suitability of accounting methodologies and the transparency of debt-related disclosures. The capacity of auditors to detect possible signs of financial hardship and assess the value of assets tied

to debt plays a crucial role in enhancing the overall precision and dependability of financial statements.

Auditor Competence and Professional Skepticism: The quality of an audit is greatly influenced by the knowledge and expertise possessed by auditors. An auditor who has extensive training and expertise is more adept at detecting possible instances of financial impropriety and properly evaluating intricate accounting transactions. In addition, auditors are required to use professional scepticism, which is adopting a critical perspective that includes interrogating, investigating, and contesting the information provided by the client (Alsmairat, Yusoff, Ali, and Ghazalat, 2019). This scepticism fosters a sense of curiosity among auditors, compelling them to conduct more thorough investigations in areas that may raise suspicion, and to actively search for further information that supports their findings. The use of professional scepticism in auditing practises serves to prevent auditors from accepting material without critical examination, hence boosting the comprehensiveness and precision of the audit process.

2.3 Theoretical Review

The theories relevant to the topic are explained in this section. They include the agency theory and the competence hypothesis.

2.3.1 Competence Hypothesis

Heath and Tversky (1991) proposed the competence hypothesis. The basic principle behind the competence hypothesis is that an individual's level of professional competence is positively associated with the quality of their work and their ability to deliver high-quality outcomes. This principle can be applied to other fields, such as

medicine, law, engineering, and other professions where specialized knowledge and expertise are required.

The competence hypothesis is a theoretical framework that suggests that auditors' professional competence, as measured by their education, training, experience, and professional certification, is positively associated with audit quality. The basic idea behind the competence hypothesis is that auditors with higher levels of professional competence are better equipped to conduct high-quality audits than those with lower levels of competence (Usman, Sudarma, Habbe, and Said, 2014).

The competence hypothesis posits that auditors with higher levels of education, training, and experience have a greater understanding of auditing standards, theories, and practices, which helps them to identify and assess risks, gather sufficient and relevant audit evidence, and make informed and objective audit judgments.

Furthermore, auditors with professional certifications, such as the Certified Public Accountant (CPA) designation, are held to higher standards of ethics and professional conduct, which contributes to the quality of the audit (Supriyatin, Iqbal, and Indradewa, 2019).

2.3.2 Agency Theory

Agency theory, as proposed by Jensen and Meckling (1976), offers a framework for elucidating the dynamic between a principle, who represents the firm's owners or shareholders, and an agent, who represents the firm's management. According to the idea, a discrepancy arises between the principal and the agent due to incongruence in their respective aims and purposes.

According to agency theory, the principal hires the agent to perform a specific task, such as managing the company, but the agent may pursue their own self-interest rather than acting solely in the best interest of the principal. This can lead to a situation in which the agent's actions are not aligned with the goals and objectives of the principal, resulting in a suboptimal outcome for the principal (Fooladi, and Shukor, 2012).

To mitigate this agency problem, the principal must provide incentives for the agent to act in their best interest, or put in place monitoring mechanisms to ensure that the agent's actions are aligned with the goals of the principal. For example, the principal may offer a performance-based compensation package that rewards the agent for achieving specific goals, or they may appoint an auditor to monitor the financial performance of the company and report any irregularities (Adeyemi, and Fagbemi, 2010).

In the context of auditing, agency theory suggests that auditors serve as agents of the stakeholders, such as shareholders and creditors, who rely on the audited financial statements to make informed decisions. The auditor's role is to act in the best interest of the stakeholders and provide an independent assessment of the financial information. This helps to mitigate the agency problem between the company's management, who may have their own self-interest, and the stakeholders who rely on the financial information (Amalia, Sutrisno, and Baridwan, 2019).

2.4 Empirical Review

The summary of the previous studies on the topic are presented in this section.

2.4.1 Auditor Tenure

The study by Karno, Aulia, Panorama, and Aldiansya (2022) looked at how audit tenure and audit tennure affected the quality of audits for companies traded on the Indonesia Stock Exchange from 2019 to 2020. For this study, the group was made up of all industrial businesses that were properly listed on the Indonesia Stock Exchange between 2019 and 2020. The study used a method called "purposeful sampling." The Annual Financial Statements of companies traded on the Indonesia Stock Exchange from 2019 to 2020 were used as a source of secondary data for this study. The study showed that how long an auditor works for a client affects the quality of the audit positively.

Muhammad, Muqorobin, and Narullia (2022) looked at how tenure audits affect the quality of audits. Researchers used things like freedom, fairness, honesty, ability, and test scores as stand-ins for this quality. The people who took part in this study were accountants who worked for public accounting firms and did several reports on the same business entity. In this work, the Warp-PLS statistical tool was used. Based on the results of this study, there is a link between how long an audit has been going on and how well the public accounting business does its job. With the lengthening of the audit, the auditor seems to have become more skilled and better able to understand the business environment and actions of the client.

Martani, Rahmah, Fitriany, and Anggraiti (2021) looked into the link between the length of an audit, how often it is done, and the quality of the audit. This study also looks into whether the effects of rotation are different for the Big 4 compared to other audit firms.

This study was done in Indonesia, which is one of the few countries that both rotates audit partners and audit firms. The data show that there is no statistically significant link between the length of time an auditor has been in the job and the quality of the audit. Rotating audit firms has a positive effect on audit quality, though the effect is not as big in the Big 4 firms. In audit firms other than the Big 4, changing audit partners does not have much of an effect on the quality of the audit. However, changing audit firms may improve audit quality. In the meantime, at the Big 4, rotating audit partners is enough to improve the quality of audits because they have enough partners to do a quality review.

Krauß and Zülch (2013) looked into whether and how the length of time between an auditor and their client affects the quality of the audit. This study is one of the first to look at this auditing problem from a neutral point of view for the German auditing industry. It uses a sample of 1,071 firm observations of big publicly traded companies from 2005 to 2011 to do so. The empirical findings show that the length of time an audit firm has been in business in Germany does not have a big effect on the quality of the audit.

2.4.2 Audit Fees

Yahaya and Onyabe (2022) conducted a study to examine the potential influence of audit fee and independence on audit quality within the context of Nigeria's deficient corporate governance. A total of 180 observations were gathered from a sample of 12 listed industrial goods enterprises on the Nigerian Exchange Group, spanning the years 2006 to 2020. The authors of the study were the pioneers in providing empirical data about the relationship between audit fees and audit quality. Additionally, they provided information about the impact of audit independence on the quality of audits. It was

determined that the imposition of audit fees resulted in an enhancement in audit quality. Additionally, it was shown that the presence of audit independence is positively correlated with increased levels of audit quality. In line with the signalling theory, it was discovered that audit fees and audit independence serve as indicators and are more likely to result in enhanced audit quality.

Hossain and Wang (2022) conducted a study using data from Australia to examine the correlation between atypical audit fees and the quality of audits. It has been shown that there is a negative relationship between audit quality and the magnitude of positive atypical audit fees. It has also been shown that the presence of negative anomalous audit fees is associated with a reduction in the magnitude of discretionary accruals.

The research conducted by Kamil (2020) aimed to investigate the correlation between audit fees, audit duration, audit firm size, and the quality of audits. The present study investigated the consumer goods firms operating within the consumer goods sector, namely those that were publicly listed on the Indonesia Stock Exchange during the period spanning from 2016 to 2019. The sample methodology used in this study was intentional sampling. A sample including 22 businesses was selected using certain criteria. The study was conducted with logistic regression. (1) The imposition of audit fees has a notable positive influence on the quality of audits. The duration of an audit completion has a substantial influence on the quality of the audit. The magnitude of the audit firm has little impact on the quality of audits.

The study conducted by Wahyuni, Dewi, Dewi, and Savitri (2019) aimed to examine the impact of auditor independence on the quality of audits. The data was collected by

the administration of a questionnaire. All individuals included in this study were employed as auditors at a public accounting firm located in Bali. The sample was selected by a simple random selection technique, with a potential examination of up to 87 respondents. The data was subjected to multiple regression analysis for analytical purposes. The results of the examination indicated that the autonomy of the auditor and the remuneration for the audit had a substantial influence on the calibre of the audit.

The study conducted by Aljaaidi, Abidin, and Hassan (2021) aimed to examine the correlation between audit fees and audit quality within a sample of 104 and 108 nonfinancial firms that were publicly listed on the stock exchanges of the Gulf Cooperation Council. The research period spanned from 2005 to 2010. The results obtained from the ordinary least squares (OLS) regression analysis indicated that there was not a statistically significant association between audit fees and audit quality both before to and subsequent to the appointment of the new auditor.

2.4.3 Audit Firm Size

The study conducted by Achyarsyah (2014) examined the impact of audit firm tenure and audit firm size on the quality of audits. This study used an explanatory research design, with questionnaires and interviews as the primary methods of data collection. The population of this research comprises publicly traded accounting firms registered on the Indonesian stock market. Based on the results of the research, it was determined that the duration of audit firm engagement did not have a statistically significant effect on the quality of audits. Conversely, the size of the audit company was shown to have a considerable influence on the quality of audits.

The study conducted by Alsmairat, Yusoff, Ali, and Ghazalat (2019) focused on the utilisation of two indicators for the purpose of analysing and evaluating the quality of audits performed by auditors in Jordan. There were two variables that were considered in this study: the duration of the audit and the magnitude of the auditing firm. In this study, a total of 200 questionnaires were sent to auditors from Jordan. The collected data was afterwards evaluated with Partial Least Squares-Structural Equation Modelling (PLS-SEM) software. The study revealed a robust and statistically significant correlation between the length of audit tenure, the size of the audit company, and the quality of the audit. This finding was established by the analysis of descriptive data and the use of a structural equation model.

In their study, Sari, Diyanti, and Wijayanti (2019) conducted an investigation into the correlation between audit quality and other factors, including audit tenure, audit rotation, audit fee, accounting firm size, and auditor speciality. The population under investigation in this research included manufacturing enterprises that were listed on the Indonesia Stock Exchange throughout the period spanning from 2015 to 2017. A purposive sampling technique was used in order to get samples from a total of 50 companies. The data was subjected to logistic regression analysis. The results of this study indicate that audit rotation, fee audit, and accounting firm size do not have a significant impact on audit quality. However, audit tenure and auditor speciality were shown to be influential factors.

Pham, Duong, Pham, and Ho (2017) conducted a study to examine the influence of several audit company characteristics, including audit reputation, audit fees, and audit firm size, on the quality of audits. A sample including 192 enterprises registered on the

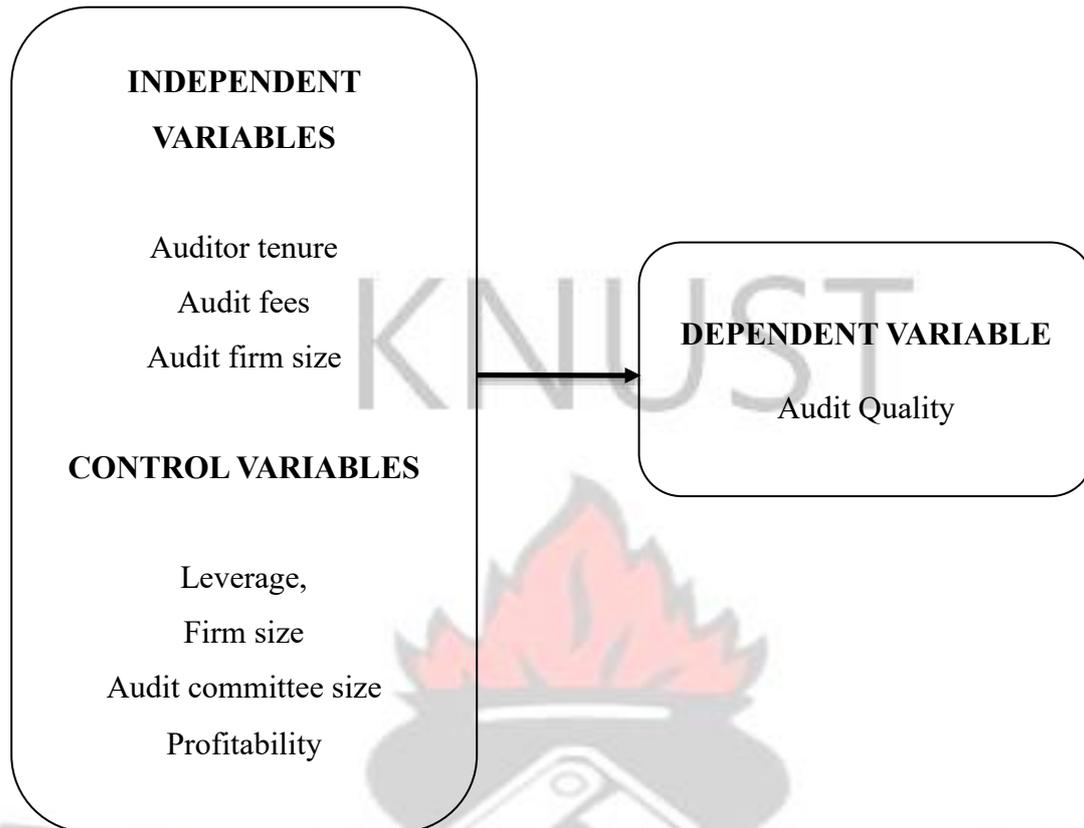
Hanoi and Ho Chi Minh Stock Exchanges was selected for the time frame spanning from 2006 to 2014. The data underwent analysis by the use of multiple regression. Based on the available data, it can be concluded that Big 4 auditors in Vietnam exhibit a superior level of audit quality in comparison to auditors who are not affiliated with the Big 4. Interestingly, with the exception of the audit firms classified under the Big 4 group, the evidence from Vietnam suggests that smaller audit firms have superior audit quality. Additionally, the results indicate a negative correlation between the audit fees charged by auditors and the quality of their audits.

2.5 Conceptual Framework

The conceptual framework for the study is presented in figure 2.1. The figure shows that the independent variables (auditor tenure, audit fees, audit firm size) together with the control variables (firm size, audit committee size, leverage and profitability) are linked to the dependent variable (audit quality).

Figure 2.1: conceptual framework





Source: Construct by Author (2023)

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter describes the method that was applied in carrying out the study. It details the research design, population, sampling technique, data collection methods, data analysis and variables and measurement.

3.2 Research Design

The research design for the study is the quantitative design. Quantitative design is a method of collecting and analysing numerical data in order to answer research questions. It is a type of research design that focuses on collecting and analysing numerical data and uses statistical analysis to identify patterns and relationships between variables (Babbie, 2020). This study employed the quantitative design because the research questions require the collection of numerical data. Also the research questions require objectivity and minimization of bias hence this design allows for statistical tests to be carried out on the data in a standardised manner to establish statistical significance.

3.3 Population

According to Graue (2015) the population of the study refers to the total number of cases from whom a representative sample is drawn. This study population was the companies listed on the Ghana stock exchange. There were thirty-nine firms listed on the Ghana stock exchange.

3.4 Sample Size and Sampling Technique

The study selected sixteen (16) non-financial firms based on data availability. The research period was from 2010-2021 because this is the period that the researcher was able to acquire the data. The purposive sampling technique was used to select the firms for the study. The study employed non-financial firms quoted on the Ghana stock exchange. Financial firms were excluded because the method of calculating audit quality for financial firms is different from non-financial firms hence combining both sectors in one study is not tenable. Earnings management for financial firms requires

loan loss provisions and non-performing loans which are not provided by non-financial firms. Also companies whose data were not available for the period were excluded.

3.5 Method of Data Collection

Data has been classified into two – primary and secondary data (Saunders et al., 2009). Primary data is first-hand data, while secondary data has already been collected by others for other purposes and are available for use (Saunders et al., 2009). This research depended on secondary data. The data was collected from the firms' annual reports. The data was coded into MS excel sheet and used used for the analyses.

3.6 Data Analysis

The software for the data analyses was E-views 13. The data for the study was panel data since the data included time (2010-2021) and many company information (16 firms). There are various benefits to panel data regressions. For starters, since they mix cross-sectional and time-series data, panel information can handle more complicated datasets. This results in a higher degree of flexibility and a greater ability to test. In addition, panel regression may reduce the impact of some of the remaining factors on the regression (Brooks 2014). Using panel data, Gujarati (2004) found that it is possible to better and more accurately evaluate the repercussions of a given action since it gives more information, larger variety, less variable collinearity, higher efficiency, and better dynamic properties. Pooled regression, fixed effects models, and random effects models are the three most prevalent models for panel data. A number of statistical tests are needed to select the best regression model for the data at hand.

3.6.1 Pooled Regression

Brooks (2014) stated that pooled regression begins by testing using the usual ordinary least squares (OLS). This is the simplest comparison with panel data. This involves evaluating all the uniform equations, assuming that the variables and their interrelations are constant over time and in all sample cross-sections. This will lead to assumptions about heterogeneity and time-specificity; thus some information may be left out in the dimension of time and the cross-sectional dimension.

3.6.2 Fixed-Effects Model

The regression model's intercept may vary cross-sectionally, but not over time, in the fixed-effect model. It should be noted that cross-sectional and temporal estimations of tendency are both fixed (Brooks, 2014). Fixed effect models are straightforward to implement, but they have several drawbacks. According to Gujarati (2004), the degree of freedom is reduced when a large number of dummy variables are used. A multi-collinearity connection may arise when there are a lot of factors involved..

3.6.3 Random-Effects Model

Random-effect models provide different intercept conditions for each business, which are constant over time; this relationship between the explanatory and explained variables remains constant in cross-sectional as well as time-varying contexts (Brooks, 2014). Because the predictive factors are assumed to be unrelated to the errors, the time-invariant variables are used as explanatory variables.

3.6.4 Hausman Test

The random-effects model is appropriate if random entities are to be considered randomly from the population. In contrast, the fixed-effect model is favourable if the firms in the sample account for the entire population. Since fewer random-effect parameters are valued and thus a degree of freedom is retained, the random-effects model contains a more effective estimate than the fixed-effect approach. On the other hand, the Random-effects approach only applies if the mixed error is unordered for all explanatory variables (Brooks, 2014). To know the model which is suitable, the Hausman test was done. The null hypothesis is that the random- effect is appropriate.

3.6.5 Diagnostic Testing

Collinearity is when a number of independent variables are statistically linked, this is (Isaac and Nathaniel, 2011). There is a chance that the regression model's predicted coefficients are wrong, which would lead to wrong conclusions about how the outcome and the predictor variables are related (Isaac and Nathaniel, 2011). In a multiple regression model, the variance inflation factor (VIF) is often used to find out if there is multicollinearity between the predictor variables (Wooldridge, 2010). Variable Inflation Factor (VIF) is a way to measure how much a change in one variable affects the coefficient for all independent variables that can be explained by other independent variables. If the VIF is between 5 and 10, researchers might want to take the variable out of the study (Wooldridge, 2010). In models that are not as good, values over 2.5 may also be a cause for concern.

In addition to the VIF, multicollinearity can be found by looking at how much each independent variable can vary. Tolerance is how much one independent variable can

change without the other independent variables being able to explain it. Collinearity is shown by a value of more than 0.80 (O'Brien, 2007). Linderhof, Nowicki, van Leeuwen, Reinhard, and Smit (2011) assert that the variance of the estimated regression coefficient is likely to be too high because at least some regression coefficients may have the wrong sign because of collinearity. Using the variance inflation factor Pearson correlation, the study looked for collinearity.

Autocorrelation, also known as serial correlation, refers to the correlation between the error terms of a regression model across time or across observations. This means that the error terms of one period or observation are correlated with those of the next period or observation, violating the assumption of independence of the errors (Gujarati, 2011).

The Durbin-Watson (DW) statistic was used to test for autocorrelation. The Durbin-Watson (DW) statistic is a test for autocorrelation in the residuals of a regression analysis. It ranges in value from 0 to 4, with a value of 2 indicating no autocorrelation. A value below 2 indicates positive autocorrelation (i.e., the residuals are correlated with each other in a positive manner), while a value above 2 indicates negative autocorrelation (i.e., the residuals are correlated with each other in a negative manner). In general, a DW statistic value between 1.5 and 2.5 is considered acceptable, indicating no significant autocorrelation in the residuals. If the DW statistic falls outside of this range, then it suggests that there may be an issue of autocorrelation in the model.

3.7 Model Specification

Based on the studies of Karno, Aulia, Panorama, and Aldiansya (2022) and Martani, Rahmah, Fitriany, and Anggraiti (2021), the following econometric model was provided.

$$AQ_{it} = \alpha + \beta_1 Aute_{it} + \beta_2 Profit_{it} + \beta_3 Size_{it} + \beta_4 Lev_{it} + \beta_5 Acsz_{it} + u_{it} \dots (1)$$

$$AQ_{it} = \alpha + \beta_1 Aufe_{it} + \beta_2 Profit_{it} + \beta_3 Size_{it} + \beta_4 Lev_{it} + \beta_5 Acsz_{it} + u_{it} \dots (2)$$

$$AQ_{it} = \alpha + \beta_1 Aufz_{it} + \beta_2 Profit_{it} + \beta_3 Size_{it} + \beta_4 Lev_{it} + \beta_5 Acsz_{it} + u_{it} \dots (3)$$

AQ..... audit quality

Aufe audit fee,

Aute auditor tenure,

Aufz..... audit firm size,

Prof..... profitability,

Lev Leverage

Acsz Audit committee Size

3.8 Study Variables

This section presents the variables for the study. They include the dependent variables, independent variables and control variables.

3.8.1 Dependent Variable

The dependent variable is audit quality and it was estimated using discretionary accruals. The modified Jones model was employed to estimate discretionary accruals. Discretionary accruals are adjustments made by management to the financial statements

that are not based on past transactions or events. They are used to manipulate financial results in order to meet earnings targets, or to present a better financial picture to stakeholders (Samagaio and Felício, 2022).

The measurement of discretionary accruals is often used as an indicator of audit quality because higher levels of discretionary accruals can indicate a lack of independence or effectiveness in the auditing process. Auditors are responsible for verifying the accuracy of a company's financial statements and ensuring that they comply with accounting standards. If management is able to make significant discretionary adjustments to the financial statements without those adjustments being detected by the auditor, it may indicate that the auditor is not thoroughly reviewing the financial statements or that they have a close relationship with management (Alhababsah, and Yekini, 2021).

Therefore, a low level of discretionary accruals is generally considered a positive indicator of audit quality, as it suggests that the auditor is effectively monitoring the financial statements and that management is not making significant adjustments to manipulate earnings. On the other hand, a high level of discretionary accruals can be seen as a red flag for audit quality and may raise questions about the independence and effectiveness of the auditor (Samagaio and Felício, 2022).

3.8.2 Independent Variables

The independent variables are audit firm size, audit fees and auditor tenure.

Audit firms size refers to the scale of a public accounting firm that provides audit services to companies. It was measured as a binary variable with a value of 1 for the big 4 audit firms and zero if otherwise (Faizah, Ferisha, Belinda, and Meiden, 2022).

Audit fees are the charges that an audit firm imposes on its clients for its professional services, including auditing, assurance, and other related services. It was measured as the natural log of the actual amount paid to external auditors for auditing purposes (Ayoola, 2022).

Auditor tenure is often defined as the length of time that a particular auditor has been working with a specific client or organization. It was measured as the number of years that an auditor has continuously been with a firm (Karno, Aulia, Panorama, and Aldiansya, 2022).

3.8.3 Control Variables

The control variables are leverage, firm size, audit committee size and profitability.

Leverage is a measure of a company's level of debt relative to its equity or assets. It was measured as total debt divided by total assets (Kalbuana, Suryati, and Pertiwi, 2022).

Firm size refers to the magnitude or scale of a company in terms of its operations, resources, and market presence. It was measured as the natural log of total assets (Fujianti, and Satria, 2020). The audit committee size is the number of individuals that make up the audit committee of a company's board of directors (Mardessi, 2021).

Profitability is a measure of a company's ability to generate profit from its operations. It was measured as net profit divided by total assets (Kalbuana,

Suryati, and Pertiwi, 2022).

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Variable	Measurement	Supporting Studies	Sign
	Dependent Variables		
Audit Quality	It was measured using discretionary accruals	(Samagaio and Felício, 2022)	
	Independent Variables		
Audit tenure	The length of the auditor-client relationship	(Karno, Aulia, Panorama, and Aldiansya, 2022)	Negative /Positive
Audit fee	Amount paid in audit fees scaled by total assets	(Ayoola, 2022)	Negative /Positive

Audit firm size	A dichotomous variable, (Faizah, which takes the value of 1 if the firm is audited by the big4 audit firms and 0 if otherwise	Ferisha, Belinda, and Meiden, 2022).	Positive
Control Variables			
Firm Size	Natural log of total assets	(Fujianti, and Satria, 2020)	Positive
Profitability	Net income scaled by total assets	(Kalbuana, Suryati, and Pertiwi, 2022)	Positive
Audit committee size	Total number of audit committee members	(Mardessi, 2021)	Positive
<u>Leverage</u>	Total debt scaled by total <u>assets</u>	(Kalbuana, Suryati, and Pertiwi, 2022)	Negative/ <u>Positive</u>
Source: Construct by Author (2023)			

Table 3.1: Variables, Measurement, Signs, and Supporting Studies

CHAPTER FOUR

RESULTS AND DISCUSSION

4.0 Introduction

This chapter presents the results of the study. The descriptive statistics of the results are presented then the regression results follow. The discussion of the results is also included in this section.

4.1 Descriptive Statistics

Based on the data Table 4.1, it is seen that the mean value of audit quality is negative (-0.268), which indicates that, on average, there were negative discretionary accruals over the 12-year period. However, the large standard deviation (2.886) and the range between the minimum (-15.847) and maximum (23.863) values suggest that there is considerable variation in the level of discretionary accruals among the firms over the 12-year period. The negative mean value of discretionary accruals could suggest that the firms in the data set may have engaged in conservative accounting practices or may have had lower levels of earnings management. The mean value of audit fees is 0.0022, which suggests that, on average, the firms paid 0.22% of their total assets in audit fees each year. The standard deviation of audit fees is 0.0033, which indicates that there is some variation in the level of audit fees paid among the firms in the data set. The range of values for audit fees in the data set is relatively narrow, with the minimum value of 0.0001102 and the maximum value of 0.020406. This suggests that the majority of the firms in the data set paid a relatively consistent level of audit fees over the 12-year period.

The mean audit tenure for the firms over the 12-year period is 4.868 years. This indicates that, on average, the firms had an auditor-client relationship for just under 5 years. The standard deviation of audit tenure is 3.028 years, which indicates that there is some variation in the length of the auditor-client relationship among the firms in the data set. The range of values for audit tenure in the data set is relatively narrow, with the minimum value of 1 year and the maximum value of 12 years. This suggests that the majority of the firms in the data set had an auditor-client relationship that lasted between 1 to 12 years.

The mean for audit firm size is 0.638 which suggests that, on average, a large proportion of the firms in the sample employed the Big 4 audit firms as their external auditors. The standard deviation is 0.482 which indicates that there is some variability in the proportion of firms that employed the Big 4. The minimum value of the variable is 0, which means that at least one firm did not employ the Big 4, while the maximum value is 1, indicating that at least one firm exclusively employed the Big 4. The mean close to 1 indicates that a large proportion of the firms in the sample employed Big 4 audit firms. The mean firm size in the sample is 18.285, with a standard deviation of 2.139. The minimum firm size is 13.768 and the maximum is 23.587. Based on the mean and standard deviation, it can be inferred that the firms in the sample are relatively similar in size. However, there is still some variation, with the smallest firm being about 13.8 and the largest being about 23.6. This suggests that the sample includes a range of different-sized firms.

The mean leverage of the firms over the 12-year period is 0.621 with a standard deviation of 0.265. The minimum leverage is 0.021 and the maximum is 1.433. This suggests that, on average, the firms in the sample had a higher proportion of debt relative to their total assets, with a considerable variation among firms. The high standard deviation indicates that there were firms with significantly higher and lower leverage than the average. The minimum and maximum values suggest that there were firms with very low and very high leverage in the sample. Based on this, it can be inferred that the firms have varying levels of financial risk, with some firms being highly leveraged (i.e., having a high level of debt in proportion to their assets) and others having lower levels of financial risk.

The mean profitability of the firms over the 12 year period was negative (-0.109) which suggests that, on average, the firms were not profitable. However, the standard deviation is quite high (1.907) indicating that there is a large variation in profitability among the firms in the sample. The minimum profitability value (-25.064) also indicates that some firms had significant losses over the period. The mean audit committee size is 3.32 with a standard deviation of 0.88. The minimum value for audit committee size is 0 (which seems like an outlier and needs further investigation) and the maximum value is 5. This indicates that on average, firms had a relatively small audit committee size of around 3-4 members.

A small audit committee size could potentially have a negative impact on audit quality, as there may be fewer individuals to provide oversight and guidance to the external auditor. With a smaller committee, there may also be a lack of diversity in terms of skillsets and expertise, which could limit the committee's ability to effectively evaluate and challenge the external auditor's work.

Table 4.1: Descriptive statistics

Variable	Mean	Std. Dev.	Min	Max
Audit Quality	-0.268	2.886	-15.848	23.863
Audit Fees	0.002	0.003	0.000	0.020
Audit Tenure	4.868	3.028	1.000	12.000
Audit firm size	0.638	0.482	0.000	1.000
Firm Size	18.286	2.139	13.768	23.587
Leverage	0.621	0.265	0.021	1.433
Profitability	-0.109	1.908	-25.064	0.455
Audit committee Size	3.325	0.877	0.000	5.000

Source: Construct by Author (2023)

4.3 Multicollinearity Test

Table 4.2 shows that the highest correlation among the independent variables is between audit fees and firm size at 0.77. This figure however is below 80 percent and does not suggest that there is high correlation among the variables. It is further seen that all the independent variables with the exception of profitability has a positive correlation with audit quality. In contrast, profitability has a negative correlation with audit quality. A look at the variance inflation factor (VIF) shows that all the figures are below ten which suggests that there is no multicollinearity.



Table 4.2: Pearson Correlation

	AQ	AUFE	AUTE	AUFZ	Size	LEV	ACSZ	Prof	VIF
AQ	1.00								
AUFE	0.04	1.00							4.5
AUTE	0.19	0.24	1.00						1.09
AUFZ	0.07	0.57	0.21	1.00					2.87
Size	0.13	0.77	0.21	0.75	1.00				5.82
LEV	0.09	-0.14	-0.01	-0.35	-0.19	1.00			1.23
ACSZ	0.14	0.26	0.14	0.37	0.34	0.07	1.00		1.24
Prof	-0.04	0.02	0.11	0.16	0.08	-0.14	0.13	1.00	1.06

Source: Construct by Author (2023), AQ: audit quality, Aufe: audit fee, Aute: auditor tenure, Aufz: audit firm size, Prof: profitability, Lev:

Leverage, Acsz: Audit committee Size



4.4 Hausman Test

The results of the Hausman test is presented in Table 4.3. The Hausman test shows that the null hypothesis cannot be rejected since the p-values for all the three equations are below the 5 per cent significance level suggesting that the fixed effects model is appropriate.

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Table 4.3: Hausman Test

	Stat	Sig	Meaning
Equation 1	15.58	0.00***	Fixed effects
Equation 2	16.21	0.00***	Fixed effects
Equation 3	14.25	0.01***	Fixed effects

Source: Construct by Author (2023), ***: 1% significance level

4.5 Presentation and Discussion of Results

The results from the regression analysis is presented in this section of the study.

4.5.1 Effect of Auditor Tenure on Audit Quality

The coefficient of determination (r-squared) in Table 4.4 is 0.21, indicating that the independent factors account for about 21% of the variability seen in the dependent variable. The F-statistic is used to assess the overall significance of the model. The F-statistic of 10.53 suggests that the model has statistical significance at a significance level of 1%. The Durbin-Watson statistic is used to examine the existence of autocorrelation within the residuals. The Durbin-Watson value of 2.25 indicates the absence of statistically significant autocorrelation in the residuals. Audit tenure has a coefficient of 0.548173, a standard error of 0.164692, and a t-statistic of 3.328477.

The p-value associated with this coefficient is 0.00, indicating that it is statistically significant at the 1% level. For each unit increase in audit tenure, audit quality is expected to increase by 0.548173 units, holding all other variables constant. This finding supports the study of Karno, Aulia, Panorama, and Aldiansya (2022).

Table 4.4: Regression results for the effect of auditor tenure on audit quality

Audit quality	Coefficient	Std. Error	t-Stat	P-value
Auditor tenure	0.548173	0.164692	3.328477	0.00***
Leverage	0.378317	0.176538	2.142973	0.03**
Firm Size	-0.15278	0.085428	-1.78841	0.08*
Audit committee size	-0.051376	0.056374	-0.911338	0.36
Profitability	0.005023	0.025335	0.198269	0.84
Constant	2.50741	1.507154	1.663672	0.10*
r-square	0.21			
F-stat	10.53***			
Durbin-Watson stat	2.25			

Source: Construct by Author (2023), ***:1% significance level, **:5% significance level, *: 10% significance level.

The finding can be explained by the fact that when an auditor has a long tenure with a company, they become more familiar with the company's operations, industry, and financial reporting processes. This familiarity allows the auditor to perform a more comprehensive and efficient audit, as they are less likely to miss important information or procedures. Also with longer auditor tenure, the auditor becomes more experienced and knowledgeable about accounting and financial reporting issues, which can result in a higher quality audit. Further, longer auditor tenure improves the auditor's relationship with the company's management and enhance their ability to communicate and collaborate with management. This can result in more effective and efficient audits, as

the auditor is able to obtain the necessary information and documentation in a timely manner.

The theory that supports the relationship between auditor tenure and higher audit quality is the competence hypothesis (Heath and Tversky, 1991). The competence hypothesis is based on the idea that auditors need to build knowledge and expertise about a company in order to perform a high-quality audit. This knowledge and expertise can be acquired through longer auditor tenure with the company, as the auditor becomes more familiar with the company's operations, industry, and financial reporting processes. Over time, the auditor also develops a better understanding of the company's business and the risks associated with auditing the company, which can result in a more thorough and objective audit.

4.5.2 Effect of Audit Fees on Audit Quality

The coefficient of determination (r-squared) shown in Table 4.5 exhibits a value of 0.31, indicating that the independent factors account for about 31% of the observed variability in the dependent variable. The F-statistic is used to assess the overall significance of the model. The obtained F-statistic of 42.59 suggests that the model has statistical significance at a significance level of 1%. The Durbin-Watson statistic is used to examine the existence of autocorrelation within the residuals. The Durbin-Watson score of 1.90 indicates the absence of statistically significant autocorrelation in the residuals. Audit Fees has a coefficient of -0.122227, a standard error of 0.06574, and a t-statistic of -1.859237. The p-value associated with this coefficient is 0.07, indicating that it is statistically significant at the 10% level. For each unit increase in audit fees,

audit quality is expected to decrease by -0.122227 units, holding all other variables constant. This finding supports the study of Hossain and Wang (2022).

Table 4.5: Regression results for the effect of audit fees on audit quality

	Coefficient	Std. Error	t-Stat	P-value
Audit quality				
Audit Fees	-0.122227	0.06574	-1.859237	0.07*
Leverage	0.21070	0.165612	1.272253	0.21
Firm Size	-0.159456	0.073814	-2.160251	0.03**
Audit committee size	-0.037817	0.055585	-0.68034	0.50
Profitability	0.005028	0.043317	0.116081	0.91
Constant	1.098039	0.864794	1.269711	0.21
r-square	0.31			
F-stat	42.59***			
Durbin-Watson stat	1.90			

Source: Construct by Author (2023), ***:1% significance level, **:5% significance level, *: 10% significance level.

The finding can be explained by the fact that when audit fees are high, the auditor may feel pressured to complete the audit within a shorter time frame in order to maximize profits. This can result in the auditor rushing through the audit process, cutting corners, and missing important procedures, which can lead to lower-quality audits. Also, when audit fees are high, the auditor may become more dependent on the company for future business and may be less likely to raise concerns or challenge the company's financial information. This can result in a less thorough and less objective audit, which can lead to lower-quality audits. Further, when audit fees are high, the auditor may have a financial incentive to find fewer issues or to understate the severity of problems. This can result in a lower-quality audit that does not accurately reflect the financial condition of the company.

The finding supports the agency theory (Jensen and Meckling, 1976). In the context of auditing, agency theory suggests that higher audit fees can create a conflict of interest between the auditor and the company. When audit fees are high, the auditor may have a financial incentive to prioritise their own interests over the interests of the company and its stakeholders. This can result in a lower-quality audit as the auditor may be less likely to challenge the company's financial information or report potential issues.

4.5.3 Effect of Audit Firm Size on Audit Quality

The coefficient of determination (r-squared) shown in Table 4.6 is 0.31, indicating that the independent factors account for about 31% of the variability seen in the dependent variable. The F-statistic is used to assess the overall significance of the model. The F-statistic of 12.51 suggests that the model has statistical significance at a significance level of 1%. The Durbin-Watson statistic is used to assess the existence of autocorrelation within the residuals. The Durbin-Watson statistic, with a value of 2.02, indicates the absence of statistically significant autocorrelation in the residuals. Audit firm size has a coefficient of 0.024055, a standard error of 0.256725, and a t-statistic of 0.0937. The p-value associated with this coefficient is 0.93, indicating that it is not statistically significant. This finding supports the study of Aljaaidi, Abidin, and Hassan (2021).

Audit quality	Coefficient	Std. Error	t-stat	P-value
Audit firm size	0.024055	0.256725	0.0937	0.93

Leverage	0.374585	0.182859	2.048485	0.04**
Firm Size	-0.149604	0.076031	-1.967687	0.05**
Audit committee size	-0.050109	0.059217	-0.846203	0.40
Profitability	0.004853	0.025481	0.190448	0.85
Constant	2.423169	1.382127	1.753217	0.08*
r-square	0.17			
F-stat	12.51***			
Durbin-Watson stat	2.02			

Table 4.5: Regression results for the effect of audit firm size on audit quality

Source: Construct by Author (2023), ***:1% significance level, **:5% significance level, *: 10% significance level.

CHAPTER FIVE

SUMMARY, CONCLUSIONS, AND RECOMMENDATIONS

5.0 Introduction

This chapter covers the last part of the study. This part presents the summary of the findings according to the objectives, the conclusion on the topic is drawn and recommendations are also presented.

5.1 Summary of Findings

The study found that auditor tenure had a positive relationship with audit quality (coeff. 0.548173). The p-value of 0.00 means that the relationship was significant at the 1 per cent level. The finding meant that an increase in the auditor tenure lead to higher audit quality.

The study also found that audit fees had a negative relationship with audit quality (coeff. -0.122227). The p-value of 0.07 meant that the relationship was significant at the 10 per cent level. The finding meant that an increase in audit fees leads to lower audit quality

It was also discovered that audit firm size had a positive relationship with audit quality (coeff. 0.024055). The p-value of 0.93 meant that the relationship was not significant.

5.2 Conclusion

The general objective of the study was to examine audit tenure, audit fees and audit firm size on audit quality of listed firms in Ghana. The study's design was explanatory. Sixteen non-financial businesses registered on the Ghana stock exchange provided data for this study. The period covered was from 2010-2021. The dependent variable was audit quality. The independent variables were audit fees, audit firm size and auditor tenure. The control variables were firm size, leverage, audit committee size and profitability. The data was analysed using random effect regression.

The study found that auditor tenure positively affect audit quality because long tenure breads familiarity which allows the auditor to perform a more comprehensive and efficient audit, as they are less likely to miss important information or procedures. It

was also found that audit fees negatively affect audit quality because when audit fees are high, the auditor may have a financial incentive to find fewer issues or to understate the severity of problems. Finally, the study found that audit firm size did not affect audit quality

5.3 Recommendation

Firms should engage in open and transparent fee negotiations with audit firms, clearly communicating the importance of maintaining audit quality and the potential impact of fee reductions on the resources allocated to the audit engagement. They should emphasize the balance between cost considerations and the resources required for a comprehensive and effective audit. They should prioritize audit firms that demonstrate a commitment to delivering high-quality services.

Firms should focus on building long-term relationships with their clients, as this can help promote trust and collaboration between the firm and the client. This can also help the firm develop a deep understanding of the client's business and risks, which can facilitate more effective audits. During the auditor selection process, firms should prioritize candidates who demonstrate a history of long-term engagements and tenure with their clients and also those who possess a strong track record of providing high-quality audits over an extended period.

When selecting an auditor, firms consider multiple factors beyond just audit firm size. They should evaluate auditor tenure, experience, industry expertise, and previous audit quality performance.

5.4 Recommendation for further Studies

Future studies could investigate the impact of auditor tenure on audit quality in different industries or countries to see if the relationship holds across different contexts. Also, further studies could explore the role of audit fees in the audit quality process, including whether there are optimal fee levels that balance the need for audit quality with the need for cost-effectiveness. Finally, further studies can investigate other factors that may impact audit quality, such as the characteristics of the audit committee, the experience level of the auditor, or the complexity of the company's operations.

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