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DETERMINANTS OF EXTERNAL AUDITORS' CHOICE AMONG COMMERCIAL BANKS IN GHANA

BY

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DECLARATION

I hereby declare that this submission is the result of my own work for the award of a Master of Business Administration-Accounting Option. To the best of my knowledge, this study contains no material previously published by another person or submitted for the award of any other degree of the university, except where due acknowledgement has been made in the text.

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DEDICATION

I dedicate this thesis to God Almighty for His strength, guidance, protection and power throughout the study. To my mother Mary Owusuaa and to my able wife Malinda Nana Afiba Adu Gyamfi who supported me with prayers and encouragement. I also dedicate this work to my four children; Christian Nana Adu Gyamfi, Cara Nhyira Morkeh Adu Gyamfi, Richard Adu Gyamfi Junior and MaryRohi Owusuaa Adu Gyamfi who were affected by this journey of study. I pray for God's continuous blessings upon your lives. I love you all.

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ABSTRACT

The choice for an auditor has become a strategic decision that corporate entities have to deal with because of the reliance on annual statutory audit report for effective decision-making. The study is aimed at investigating the determinants of external auditors' choice among commercial banks in Ghana. A secondary data collection method was used to obtain information in the published annual reports of a sample of seventeen (17) selected commercial banks out of the twenty-three (23) commercial banks in Ghana for a period of ten (10) years from 2011 to 2020. In predicting the findings of the study, the logistic regression model was used, and the findings revealed that, profitability, the board size and board independents have positive significant relationship with auditors' choice. The size of the bank did not show any significant relationship with auditors' choice. The study recommended a mixed data collection approach for future studies so that through primary data collection instruments such as questionnaires and interview, the views and opinions of board of directors, Chief Executive Officers, audit committee members and top managers of organization could be surveyed on the determinants of auditors' choice.

TABLE OF CONTENTS

LIST OF TABLES

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

The request for auditing and assurance services by stakeholders has risen in recent times. Knechel, (2002) stated that organizations chose a specific auditor for a number of reasons and these reasons are complex and vary from one organization to the other due to the different benefit accrued from the choice of an external auditor. Ekumankama and Uche (2009) noted that the pursuance of an effective and efficient way of promoting accountability in an organization where management interest is likely to deviate from shareholders has been reason behind the appointments of external auditors. Stakeholders reliability on annual statutory audit report to verify the effectiveness of the operations of the firm and the level of consistency in the disclosure of the various elements of the financial statements ensure their interest is being protected (Kasim, 2005).

Millichamp and Taylor (2008) noted that audit engaged by companies are to report on the financial statements in line with IFRS to reduce irregularities and misappropriations. Giudici (2012) pointed out that the accounting scandals from 2001 to 2003 brought the role of auditors as a major player in protecting financial markets has come under criticism. Kiršienė and Misevičiūtė (2016) stated that in the year 2008, the world economic setbacks affirmed the significance of having external auditors in the Institutional financial setup. The Bank of Ghana reported in 2019 that, the banking crisis in Ghana between August 2017 and August 2019 contributed to the collapse of four hundred and twenty (420) firms that operated as licensed financial Institutions under the supervision of the Banks and Specialized Deposit-Taking Institutions Act, 2016 (Act 930). According to KPMG‘s Report (2018), factors that contributed to these banks failures include incompetent management and failure to observe good corporate practices spelt out in the banking regulations.

According to Wang (2013), the engagement of external auditors by companies is influenced by many elements including audit fees, their area of expertise, their audit opinion, the size of the listed company, geographical proximity, profitability, the reputation of the audit firm and corporate governance system. Anderson, Kadous, and Koonce (2004) stressed the importance of corporation institutions working with credible auditors to both eliminate agency conflict and offer guarantees with regard to the reliability and the credibility of elements as disclosed in the statement of the financial position. A great number of people are worried over the appointment criteria of auditors and their responsibilities in terms of the provision of assurance services in the banking sector. This has necessitated the need to consider factors that determines the external auditor a firm will go for. The need for fair and transparent presentation of financial statement has boost the importance of external auditing in the organizational setting.

Ashbaugh and Warfield (2003) stipulated that auditors play a monitoring role as corporate governance machinery by keeping an eye on a company's financial accountability system. By confirming the validity and the credibility of the financial statements, independent auditors help to moderate the agency costs and enables the establishment of an accurate and effective decision-making and policies on the grounds of a credible financial data. (Cohen, Kbrishnamoorhy and Wright, 2002). Collis et al

(2004) defined external audits as an audit procedure carried out in accordance with a country's regulatory requirements. Additionally, Nzomo (2002) suggested that corporate entities' financial statements are audited annually by qualified professional auditors as a result of the country's statutory requirement. The primary economic driver behind the need for external audit engagement is the crucial duties the external audit firm execute in lowering information asymmetry (Abidin, 2006). Quick (2012) argued that the law mandates external auditors to undertake an audit inspection of the financial records of companies and express their professional judgement on the credibility and validity of the state of accounts of these companies.

1.2 Statement of the Problem

The choice of external auditors is a crucial decision for commercial banks as it directly affects the reliability and credibility of their financial statements. According to (Schwartz and Menon 2015) a company may select a higher quality auditor in order to provide credible information to investors. In the banking sector, external auditors play a significant role in providing independent assurance on the accuracy and fairness of financial reporting, detecting potential fraud or misstatements, and enhancing investor confidence. Therefore, understanding the determinants that influence the selection of external auditors is vital for ensuring effective audit practices in the banking industry. Beattie and Fearnley (2015) report indicated that dissatisfaction with the audit quality is one of the most common motives cited for the choice of auditor. The existing literature provides insights into the factors that may influence the choice of external auditors among commercial banks. Several studies have examined the determinants of auditors' selection in various contexts, including the banking sector. For instance, research has highlighted the importance of auditor reputation and expertise, audit fees, auditor-client relationship, and regulatory requirements as significant factors affecting auditor choice (Carcello et al., 2011; Krishnan & Krishnan, 1997; Gul et al., 2009).

Notwithstanding the value placed on external auditing, the objectivity of independent auditors is currently attracting academic study as business organizations collapse years following the issue of audited financial statements. Many have asked for the essence of auditing if the audit firms engaged by clients have failed to mitigate the challenges faced by clients in the world of business and to prevent company failures on both a global and national scale. These have sparked worries regarding the reliability of the external auditors' reports hence necessitating the need to take into account variables that affect the choice of external auditors in the banking industry, especially among commercial banks in Ghana.

The need for a transparent disclosure of the financial statements has enhanced the significance role of external auditing and audit quality (Aslan & Aslenertik, 2017).

Managers of corporate entities could “window dressed" financial information for their inability to meet the certain target set for the period. Stakeholders need a guarantee from thirty party that the financial statement prepared and presented shows a true picture of the financial records (Okpala, 2015). The validity of financial statements been audited is significant without which the financial statement is not worth presenting (Olagunju, 2011).

Knechel et al (2008) disclosed that factors that influence the choice of an audit firms are mainly the quality factors and the cost factor. The quality factors are based on the need to reduce agency conflicts by hiring an independent auditor who would not be convinced by management to compromise their professional opinion, hence maintaining the credibility of audit findings. The cost factor involves the expenses incurred in order to maintain a reliable auditor.

Financial Institutions are mandated by law to follow corporate governance principles to enhance internal control mechanism and effective system of administration in a manner that protect and safeguard stakeholders' funds and interests. According to Bananuka et al. (2018), the easiest way to ensure transparency is to give accurate documentary proof of achievement of goals. In Ghana, the banking industrial players and other policymakers have constituted measures, procedures and regulations for the effective and efficient operation of commercial banks in Ghana and one of such regulations is the hiring of external auditors to audit rural banks' financial statements in compliance with the Companies Act.

1.3 Objectives of the Study

The overall research objective is to examine the determinants of external auditors' choice among commercial banks in Ghana. The specific objectives are:

1. To evaluate the effect of the profitability of commercial on their external auditors' choice.

2. To assess the whether the size of commercial banks influences their choice of external auditors.

3. To examine the impact of the corporate governance system on commercial banks on their external auditors' choice.

1.4 Research Questions

To investigate the determinants of external auditors' choice among the commercial banks in Ghana, the study aims at providing answers to the following:

1. What are the effects of profitability of commercial banks on their external auditor choice?

2. To what extent does the size of commercial banks influence their choice of external auditors?

3. To what extent dose the corporate governance system of commercial banks affect their choice of external auditors?

1.5 Significance of the Study

This investigation will enable researchers, external auditors and the decision-making bodies of commercial banks in Ghana to understand the factors that influence the choice of an external auditor. Directors at the top level of commercial banks who owned the responsibility of engaging external auditors will get useful information concerning the factors they need to consider when engaging the services of external audit firms. The study will also guide external auditors with regard to relevant data on commercial banking requirements that affect the decision of commercial banks when engaging their services. Finally, the investigation would enhance the interest of both researchers and academicians who seek to evaluate the determinants of external auditors' choice especially in the area of commercial banking operations in Ghana.

1.6 Scope of the Study

The scope of the study covers only the operations of the selected commercial banks in

Ghana and it focuses on the auditors' choice. Additionally, the study covers the factors that influence the choice of external auditors among these commercial banks in Ghana.

1.7 Summary of Methodology

A quantitative approach was used to demonstrate relationships between dependent variable; external auditors choice and independent variables; corporate governance (Board size and Board independence); firm characteristics (bank size and profitability) . An explanatory research design was adopted by the study to establish the causes and effects of the dependent and the independent variables. Additionally, the logistic regression model was used and the data was evaluated and interpreted according to their significance.

1.8 Limitation of the Study

The major setback of the study was that not all the commercial banks operating in Ghana were included in the work. Out of the twenty-three (23) commercial banks, the study was limited to seventeen (17) commercial banks. This was mainly because the researcher relied on the published annual reports of the commercial banks. The researcher could not get access to the annual reports of some of the commercial banks in relation to the period considered for the study. For this reason, the results of the study cannot be generalized to cover all commercial banks in Ghana. The study was conducted for only a ten (10) year period that is, from 2011 to 2020, so when circumstances pertaining to the period considered for the research change, then the findings of the study cannot be generalized in a broader perspective.

1.9 Organization of the Study

This study is divided into five sections. The first chapter provides an introduction to the study, followed by a statement of the problem, objectives of the study, research questions, significance of the study, the scope of the study, summary of methodology, the limitation of the study and the organization of the study. Chapter two covers the conceptual literature review which would evaluate the work of other researchers on the subject, theoretical literature, empirical literature review, the conceptual framework relevant to the study and summary of chapter. The chapter three examines the methodology employed in conducting the study which describes the research design, population, the sample and sampling techniques, data collection instruments, model specification, variable description and measurement and chapter summary. Chapter four covers the analyses and presentation of data. Additionally, a discussion of research findings is done in accordance with respect to the research objectives. Chapter five contains the major findings, conclusion and recommendations of the study. The conclusion and the recommendations are based on the major findings of the study.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter covers an appraisal of publications as well as previous investigations relevant to the determinants of the auditors' choice. The chapter is organized into five (5) main sections. Section 2.1 presents a conceptual literature review. Section 2.2 presents the theoretical literature review. Section 2.3 covers empirical literature review with regard to the research objectives. Section 2.4 covers the conceptual framework and finally section 2.5 presents summary of the chapter.

2.1 Conceptual Literature Review

This section highlights the broad ideologies pertaining to the study. The overview of the concept of the external auditors' choice as well as the external auditors' choice between the big four and the non-big four are covered in this section.

2.1.1 Overview of the Concept of the External Auditors' Choice

Auditors' choice is a decision made by the corporate entities to appoint a particular external audit firm from the large audit market. The concept of the external auditors' choice ascended because of the pursuit for more effective means of fostering accountability in business establishments where corporate managers' interests may diverge from shareholder interests (Ekumankama and Uche, 2009). External auditors' choice involves replacing the incumbent auditor as a result in the differences in the audit quality provided by the various audit firms in response the expanding needs of customers under changing conditions (Huson Joher, Shamsher, and Annuar, 2000).

Section 138 (1) of the Companies Act 2019, Act 992 is the legislative framework that specifies the appointment criteria for external auditors in Ghana. In Ghana, every company irrespective of their size or mode of operation must make provision for its financial statements to be audited by audit firms accredited by ICAG and submit copies of the audited accounts to the Registrar of Companies as required by law. The concept of auditors' choice arises because there are several audit firms that offer external auditing services. Consistent with the prescribed requirements of the Institute of Chartered Accountants – Ghana in the year 2022, three hundred and thirty-six (336) audit firms have been licensed to offer audit services in Ghana (The Institute of Chartered Accountants (Ghana) 2022). The decision to choose an audit firm from these numerous audit firms has become a strategy issue that entity directors have to consider. Ohidoa and Okun (2018) remarked operational and financial statement complexity are fundamental factors that guide the firm's choice of its external auditors.

There are many reasons behind the firm's decision to choose a specific auditor and these reasons are likely to differ depending on the level of the business activities operated by the company, the gains and price of engaging an audit firm are versatile (Knechel 2002). The choice of external auditors is a key decision made by the corporate organization. This is because external auditors provide critical services that provide shareholders with certainty and assurance of the value of their investment. In order to assess the accuracy of the accounting estimates made by management, an auditing procedure is conducted to confirm the figures presented in the financial statements (KPMG, 2008). The main economic justification for the external auditors' choice is that auditors play a critical role in lowering information risk because they had to uphold professional standards while also taking the managers' views into consideration, auditors were believed to experience significant role conflicts when carrying out their duties. (Cohen, Kbrishnamoorhy and Wright, 2002).

2.1.2 Auditors' Choice between the "Big Four" Auditors and the Non-Big Four Auditors

Irrespective of these numerous audit firms in Ghana, a small group of audit firms called the "Big Four" dominates the audit market. The "Big Four" audit firms are generally considered to be Deliotte and Touche, Pricewaterhouse Coopers, KPMG and Ernest and Young. The choice of hiring a "Big Four" audit firm or the "Non-Big Four" audit firm is complex. According to Broye and Weill (2008), a listed company is more likely to have a Big Four auditor. They claim that because “Big Four” auditors are anticipated to deliver better services than Non –Big Four auditors, firm management view them differently from other auditors. The “Big Four” auditors are consistently referred to as high-quality auditors by the majority of academics (Olowookere and Inneh, 2016). As a result, the discrepancy between “Big Four” auditors and “Non-Big Four” auditors provide the foundation for auditors’ choice in the literature.

Companies use credible external auditors to alleviate agency issues by assuring external investors of the veracity of financial statements (Anderson, Kadous, and Koonce, 2004). A company's directors make the decision to hire a specific auditor as a way to lessen agency issues that arise within the organization. Therefore, it is significant to consider the organization’s internal issues and their associated cost in the process of engaging an audit firm. For investors to feel certain that their resources are safeguarded, they need reputable external auditors to provide an evaluation of their business operations and systems of control.

According to Farooq and Kacemi (2011), the involvement of one of the big four audit firms resulted in a stock price increase in the MENA region and for that matter, businesses employed auditors with unique core competence to demonstrate their level of dedication to reliable financial reporting. Corporate firms employed “Big Four” auditing firms as they are considered as high-quality auditors who would convey accurate and reliable information to shareholders with regard to the operations of their business. (Habib, Wu, Bhuiyan, and Sun, 2019).

2.1.3 Corporate Governance

CEO duality is the situation where one person is appointed as the board chairman and as the chief executive officer of the firm at the same time. Due to the possible increased in shareholder-manager conflicts of interest and diminished control over managers, which has an impact on auditor's choice, it is anticipated that the company's performance would decline. Most corporate governance regulations discourage CEO dual roles (Makani et al., 2012). CEO duality and audit choice are mutually exclusive (Brad et al., 2015; Zengin 2013;). Makani et al. (2012) discovered in contrast that, CEO-Chairman duality has a favorable influence on the desire for improved quality of audit that subsequently affect the auditors' choice.he board's independence deal with the sovereign position the board has in the administrative decision of the firm and their sovereignty is purely influenced by outside directors who have no relationship with senior management within the company (Makani et al., 2012). The board of directors are the best management tool for overseeing management operations and focusing on board independence requirements. Abdullah et al. (2008) and Mahdavi et al. (2011) argued that the more independent directors, the more likely it is that a reputable audit firm would be chosen. Furthermore, Zengin (2013) emphasized that the choice of reputable audit firm is strongly controlled by the independent directors who serve on the board.

The audit committee is made up of independent non-executive and executive directors and these directors together form the management board of companies. The Audit Committee is charged with the responsibility of evaluating the system of control processes and assisting in the choice of competent external auditors for the company.

According to the CCG (2017), the board should grant the audit committee the necessary authority and resources to enable it to be effective in carrying out its duties.

2.1.4 Overview of the Auditing Regulatory Framework in Ghana

The Institute of Chartered Accountants (ICAG) under the Chartered Accountants Act 1963 (as amended 2020) regulates the accounting profession in Ghana. Under the provisions as stated by the Companies Act 2019 (Act 992), every company irrespective of their size, or mode of operation must make provision for its financial statements to be audited by audit firms accredited by ICAG and submit copies of the audited accounts to the Registrar of Companies as required by law. The Institute of Chartered Accountants Ghana are also required under the Companies Act 2019 (Act 992) to provide advice on auditing standards after adopting the ISA issued by the IAASB.

The responsibilities within the scope of the Institute of Chartered Accountants Ghana include setting audit standards, maintaining and disseminating a roster of practicing accountants, granting and renewal of licenses for the practice of accounting by qualified members, establishing and monitoring compliance with initial and ongoing professional development requirements. ICAG also ensures that its members adhere to the code of conduct. The ICAG again conducts investigation and sanctions members for nonadherence to standard. In accordance with ISA 220, the procedures and practices used by external auditors to determine whether the audits conducted were in compliance with the recognized auditing standards constitute audit quality (Sherwood and Zimmerman, 2019).

2.2 Theoretical Literature Review

A number of theoretical frameworks have been used to explain the concepts of determinants of auditors' choice in an organization. Among the theories considered for this study, include the agency theory, signaling theory and stakeholder Theory.

2.2.1 The Agency Theory

The agency theory is used to explain the fact that the agent who in this case is described as the manager is influenced by his own interest and not the interest of the principal (the shareholders). For this reason, managers work to achieve their self-interest that do not seek to maximize shareholder value. The agency theory state that management who acts as agent should meet certain responsibility on behalf of the principal (shareholders) because the economic contract between the agents and the principal. Consequently, an audit of the financial accounts, which is often conducted by independent external auditors serves as the principal means of keeping track of managers of a company.

Culpan and Trussel (2005) said in order to achieve efficiency for instituted control systems, a strong monitoring environment such as the auditing process must be in place. To begin, the objectivity of the auditors should not be compromised when dealing with the agent. There should not be a conflict of interest between the auditor and the manager. Secondly, the auditor's audit procedures must give reasonable assurance of discovering financial irregularities. Lastly, the accounting and financial data of the agent must be accurate and reliable for decision-making.

According to Syriopoulos and Tsatsaronis (2012), the agency theory is a management tool which helps to reduce the conflicts of interest that arise between managers and stockholders who are not involved in the day to day running of the company's operations. The auditors' involvement in keeping track of management activities is essential because the role of the independent auditor is to provide assurance that the financial statements are free from fraud and errors and that shareholders can rely on the financial information for future decision. The auditing firm is responsible for making sure that financial reports are prepared in accordance with the relevant accounting standards and that financial statements are free from major errors and frauds (Millichamp and Taylor, 2008).

2.2.2 Signaling Theory

The reason for the conflict of interest between managers and shareholders is largely due to the information asymmetry that exist between managers and shareholders. The signaling hypothesis describes the reasons why management take certain steps to reduce the information gap which is experienced by shareholders and interested parties (Connelly, Certo, Ireland, and Reutzel, 2011). The signaling theory was initially established in the perspective of the job market to explain the situation where the job searchers use strategies to lessen the level of information asymmetry between employers and potential employment prospects (Connelly et al., 2011). The signaling theory was applied to show how education has a signaling role in the work place environment. The level of qualifications of people who applied for job vacancies were not immediately apparent to prospective employers, there was some information asymmetry in the employment market. Candidates for jobs frequently lower the level of the information gap by demonstrating their skills by pursuing higher academic qualification.

The signaling theory is supported by three important elements. According to Connelly et al., (2011), the three elements of the signaling theory are the signaler, the signal and the receiver. In line with the theory, managers who have access to knowledge that is not available to shareholders or other external parties are known as signalers (Kirmani and Rao, 2000). The knowledge that signalers possess and must decide whether to share with outsiders is known as signal (Connelly et al., 2011). The receivers are the other stakeholders who are not privy to insider knowledge (Connelly et al., 2011). The signaling hypothesis has been employed in auditing studies to offer light on corporate auditor choice (Abbott and Parker, 2000; Bewley, Chung, and McCracken, 2008; Kang, 2014). In this research, the type of auditor is the signal, with investors serving as the signalers and management of the companies serving as the signal receivers.

2.2.3 Stakeholder Theory

According to Broye and Weill (2008), the stakeholder theory articulates that an organization is owned by a number of parties. As a result, the previous premise of the firm theory that a company simply belongs to shareholders is inappropriate. The number of stakeholders, including as shareholders, employees, regulators, and lenders, increases the complexity of interactions within the corporation. According to Al-Bawab (2012), in addition to the audit fees charged, the size of the company, capital structure of the firm, the ownership structure should be considered when choosing an external auditor.

2.3 Empirical Literature Review

This section contains empirical research on the determinants of external auditors' choice. Empirical studies on external auditors' choice in relation to the firm's profitability, the firm size and the corporate governance system are providers below:

2.3.1 Impact of Firm Profitability on External Auditors' Choice

The level of profitability of business enterprise is a key determinant of the auditors' choice for business entities. Business entities with high level of profit is likely to engage the service of a big four-audit firm. According to Joshi and Al-Bastaki (2000), companies that report high net profits submit themselves to a comprehensive audit of their revenue and expenditures; this would require the use of audit firm with high level of Industrial expertise.

Profitable business ventures may demand for a high-quality audit of their financial statement because reporting high profits margins for the period may demand the engagement of audit expertise to provide shareholders with reliable information to the figures in the financial statements (Joshi and Al-Bastaki, 2000). Ohidoa and Okun (2018) found a link between firms' profitability and auditors' choice. It implies that business that earns a higher profit margin would mostly request for the engagement of highly qualified and compententd audit firm.

Mohammed and Saeed (2018) extended the argument between the firm profitability and auditors' choice using UK Alternative Investment Market even though other researchers have established a significant link between profitability ration and the demand for high quality audit.

The research by Johnson and Lys (2017) demonstrates that ROA is one firm-specific factor that may indicate the choice of auditor. This reasoning is consistent with Abbott and Parker's (2010) research, which shows a positive association between return on asset and hiring an industry specialist auditor. They note that a more successful company is more likely to pay a specialist's premium demands. According to a study conducted in Greece by Citron and Manalis (2011), there is no discernible difference in the return on asset levels of two client groups—the Big Six vs. the non-Big Six—of auditors. Their research also indicates that Big Six clients are more successful than clients of second-tier audit firms, although local audit firm clients have greater (but not significantly higher) return on assets than do clients of second-tier audit firms.

McPhail and Sands (2014) conducted a research in Australia on the determinants of auditors' choice. The study's findings revealed nine-selection criterion with the firms 'profitability and returns on equity ranking as the main crucial factors whiles the size of the firm, operation efficiency and reporting of audit findings were much more crucial for businesses hiring new auditors. Demands for audit quality may lead to a change of auditors. According to Beattie and Fearnley's (2015) reports, a frequent justification for changing auditors is the dissatisfaction with the audit quality. In order to give investors and creditors more reliable information, a company may choose a better auditor (Schwartz and Menon, 2015). Pong and Kita (2006) conducted an investigation into factors that affect the choice of an auditor for companies and concluded that, in order to cut agency costs, Japanese companies should deal with a particular audit firm in a manner that they could obtain value for money for their business transactions.

2.3.2 Impact of the Firm Size on External Auditors' Choice

Due to the operational complexity of the business, complex transactions require a longer auditing period, as well as the use of experts and other resources from the auditors to complete audit assignments. The quantity of local and foreign branches of companies and affiliates are used to measure the size of the client firm. Businesses differ in how they expand their international commercial activities, (Kasim 2005). When reviewing and examining the complex nature of the financial reports of the firm, the auditors frequently take into consideration the size of the firm and the volume of transaction to be vouchered. Businesses operating overseas must adhere to a variety of laws and disclosure requirements, which takes more effort and knowledge. According to Vu (2012), the complexity of the company necessitated new audit techniques, greater audit time to study the firm's operations and control mechanisms.

Xu (2011) recognized a direct impact of the size of client business as a driver of auditors' choice for business enterprise and used the number of branches of foreign companies as an indication for client complexity. Auditors are required to demonstrate professional competence when checking the accuracy of the consolidated financial reports of a complex company with several subsidiaries and international activities. When auditing financial reports of firms with complicated transactions, the auditors mostly take into the net assets base of the business organization. Businesses that operate internationally must adhere to numerous laws and the disclosure as a requirement of the auditing practice.

According to Knechel et al. (2008), the company size is determined in terms of a company's asset base and that, the volume of shareholders' wealth exposed to risk could also be thought of as the size of the entity in terms of its net assets base. This further demonstrates the necessity of high-quality oversight and the appointment of competent external auditors as the size of the firm increases. The size of an entity is considered to have an impact on the firm's choice of an external auditor. Mohammed and Saeed (2018) noted that, the decision of a business entity to choose a specified external audit firm is largely determined by the size of the entity.

According to Alexeyeva (2012), an audit firm needs more resources and time to complete the inspection procedure in a large company than it does in a smaller one.

Furthermore, Vu (2012) indicated that larger client companies have stronger internal control systems than smaller companies. Ahmed and Goyal (2005) demonstrated the relationship between client firm size and auditors' choice. The volume of work of the external auditors is affected by the degree of diversification of the firm, the firm's subsidiaries and its complex nature.

Sandra and Patrick (2006) Revealed that the big four audit firms are the ones who usually offer audit services to very complex organizations. They claimed that overseas subsidiaries must comply with the financial reporting framework of the host nation, which results in a lot of audit work, time, and additional resources to complete the audits. Subsequently, complex organizations turn to appoint audit firms with a high level of professionalism (Hay and Davis 2004). Hence, the choice of an audit firm is influenced by the complex nature of a client's organization.

The financial statements contain a number of items that can be used to measure the size of the client companies. Most often, the components of the statement of the financial position including total assets, stocks, debtors, and creditors are used to measure the size of client firms. Sales and net profit are also used to estimate the size of a client from the statement of comprehensive income, Ohidoa and Okun (2018). The number of employees in the firm is used to determine the firm size and that shows a significant impact between the firm size and the external auditors' choice, (Fleischer and Goettsche 2012)

The number of branches and subsidiaries a company has can be used to gauge how complex it is. In general, the amount of audit work required increases with the complexity of the firm, the number of branches, and the degree of diversification. Sandra and Patrick (2006) discovered that the big 4 auditors are typically hired by very complicated businesses and their prices are reasonable. They claim that overseas subsidiaries must abide by the various rules and laws of financial reporting in their host nation, which leads to a lot of audit work and frequently requires additional time and resources to complete the audits. As a result, complex companies tend to prefer an excellent auditor (Hay and Davis 2004). Thus, the level of engagement complexity will have an impact on the choice of auditor to hire.

Knechel, Niemi, and Sundgren (2008) examined the choice of auditors by firms in Finland. In their investigations, they used a sample size of two thousand three hundred and thirty-three (2,333) small and medium business enterprises. They discovered from the investigation that factor that impact on small businesses decision to choose a qualified auditor is related to the complex nature of the organization's business transaction as indicated by the number and scope of its staff. They also claim that for businesses that are required to utilize certified auditors, the decision between a small and medium firm depends on the size, the level of external sources of funding the company’s activities and the complex nature of transaction to an affiliated group.

Revier and Schroe (2010) conducted an international investigation to determine the factors that influenced the auditors' choice and tested them in the European context.

They used information from twelve (12) different European nations in their study. Their findings show that businesses have high interest to appoint any of the “Big Four Audit Firms” in nations where English law and Scandinavian law have influenced national laws. They also discovered evidence supporting the idea that internal complexity influenced the choice of auditors.

2.3.3 Impact of Corporate Governance System on External Auditors' Choice

Lin and Liu (2009) looked into the factors that influenced a company's choice of auditors with regard to the company's corporate governance process in China. Their research surveyed the impact of a corporate governance structure within the firm's internal environment on the choice of an audit firm by Initial Public Offering during a period of four years (2001-2004). Their findings indicated that there is a high possibility that companies would engage top class audit firms if a company has significant controlling owners, a smaller supervisory board, or a chief executive officer doubled as the board chairman.

Cheng and Leung (2011) investigated if management demographic traits might affect the auditors' choice in China. Their findings demonstrate how the auditors' choice is influenced by the top echelons' commitment to corporate governance. According to Broye and Weil's (2008), listed companies have greater motivation to communicate their commitment to give precise and valid financial information, hence enhancing the possibility of choosing professional audit firm. Gatuma (2012) conducted a study in Kenya to identify the elements that effect commercial banks in their choice of external auditors. The study concluded that organization complexity has no bearing on the firm's choice of auditors.

Wheelan and Hunger (2006) described corporate governance as the collaboration among the board of directors, management and stockholders in setting the long term and the strategic plan of the organization. Corporate governance according to Atuahene (2016), offers a method of supervision, an objective, and accountability. Depending on the background of the academician or practitioner, corporate governance could be defined narrowly or broadly (Salacuse, 2002).

The term corporate governance appears to shield outside investors against insider expropriation. According to Atuahene (2016), a specific definition puts an emphasis on safeguarding shareholders interest. However, Gillian (2006) stated that, a broad definition is an expansion of a tight definition and is likely to satisfy the stakeholders. Corporate governance is a multi - dimensional model with a number of characteristics that have sparked debate on a global scale. The functions of auditors in the system of corporate governance are crucial in the realm of accounting and auditing. Management has given the auditors the authority to detect and prevent wrongdoing. Auditing involves verifying and evaluating evidence for a claim of transactions or event. The objective of auditing is to determine how well the claim complied with accepted standards and to communicate the findings to the user of financial information. An audit firm appointed by a business organization has legislative responsibility is to provide an unbiased judgement with regard to audit findings on financial matters to shareholders. Academicians and researchers have examined the determinants of auditors' choice but not much attention has been given to the effects of corporate governance on choice of an auditor.

Corporate governance is a key element that influences a company's worth. An entities Corporate governance is composed of the board size, the independent audit committee, CEO duality and the board independent (Klapper and Love, 2004). The impact of the entities corporate governance system on the auditors' choice could not be underestimated.

The corporate governance characteristics considered for this study included the board's size, the board independence, the dual role of the chief executive officer and the audit committee.

The number of members who serve on the board is linked to the degree of conflict the board encounters when the board is executing its duties. In view of this, several researches have shown that smaller boards are more effective since smaller corporations are easier to manage and have greater director-to-staff communication (Basiruddin, 2011). Makani et al., (2012), indicated that maintaining a certain threshold of board size good in order to attract a high quality of external auditors. Large board size does not allow the Chief Executive Officer to gain an undue advantage over the affairs of the organization (Bhagat and Jefferis, 2002).

Listed companies must choose audit firms that adhere to the Ethical code of conducted of the International Federation of Accountants, (CCG, 2017). Dhaliwal, Lamoreaux, Lennox, and Mauler (2015) noted that, the primary task of the audit committee is to aid in the selection and recommendation of auditors to the management board. To adequately safeguard the welfare of investors, the audit committee is liable for determining the independence of the auditors.

Gold (2015) argued that because of the audit committee's legal status, the committee members have solid concerns to reduce their exposure to reputational risk. A strong audit committee has an authorized obligation to advise on the appointment of an independent auditor and oversees the firm's financial activities. The criteria laid out by Almer, Philbrick, and Rupley (2014) influence the choice of auditors. The audit committee seeks for management input to assess the technical proficiency, industry understanding and professional capabilities of external audits.

The audit committees choose external auditors with expertise in the industry of their clients in order to deliver higher-quality audits and other value-added services that prove the accuracy of accounting information, (Khoo, 2016). Theoretical predictions from earlier studies have also suggested that directors with backgrounds in finance and accounting significantly impact the independence of external auditors. This makes sense because directors who have the necessary auditing expertise and knowledge are better equipped to understand the auditing process and are thus in a better position to choose an auditor with superior credentials.

2.4 Conceptual Framework

Figure 2.1 illustrates the conceptual framework diagram in detail. The external auditors' choice represents the dependent variable whiles board size, the board independence and the audit committee independence also represent the independent variable. The control variable are returns on assets, leverage and the firm size

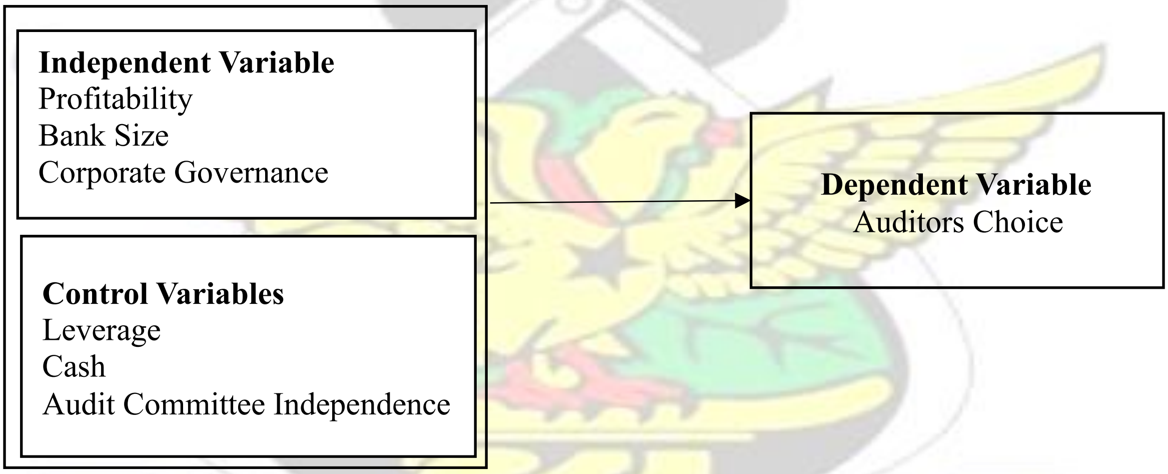

Figure 2.1: Conceptual Framework

2.5 Summary of Chapter

The section summarized the lit also looked at the ideas behind the study's variables and those used in other studies. Prior research has focused on factors that influence external auditor choice in various industries. However, it appears that majority of research omitted a crucial aspect that is, the corporate governance framework. Lin and Liu

(2009) studied on the effect of corporate governance on the choice of the Big Four audit firms. The empirical findings indicated that the possibility that a company would hire a top-class audit firm is high if the company has larger organized business owners, a board size which is relatively small and a CEO who holds the position of the board chairman. A review of the literature on studies conducted in Ghana made it clear that the factors influencing the choice of external auditors have not yet undergone a thorough investigation, particularly among commercial banks in Ghana. The Bank of Ghana reported in 2019 that, the banking crisis in Ghana between August 2017 and August 2019 contributed to the collapse of four hundred and twenty (420) firms that operated as licensed financial Institutions under the supervision of the Banks and Specialized Deposit-Taking Institutions Act, 2016 (Act 930). This has raised concerns about the need to study factors that the banks consider when choosing an external audit firm. The work is aimed at filling the gap by extending the research to cover the corporate governance system as a determinant of external auditors' choice among commercial banks in Ghana.

CHAPTER THREE

3 RESEARCH METHODOLOGY

3.0 Introduction

This section describes the research methodology of the study. This section also covers research design followed by the target population, sample procedure, sample size and the method of collection. This chapter also include the measurement of estimated variables and the method used to analyses information gathered.

3.1 Research Design

The research design is the broad method used to conduct studies to ensure an effective approach to the research problem. The research design refers to the methods used to achieve the research objectives (Mutai, 2001). The research design is the method used to collect, measure, and analyze data (Cooper and Shinder, 2007). The study adopted a quantitative research design approach to evaluate the determinants of external auditors' choice among commercial banks in Ghana. The research approach used in this study was quantitative. Positive assertions are used in quantitative research strategies to demonstrate relationships between two or more variables (Creswell, 2003). Creswell went on to demonstrate how using quantitative research techniques might support or refute statements about specific events. Therefore, a study using a quantitative research approach could determine the factors influencing the choice of auditors among Ghana's commercial banks.

In the study, an explanatory research design was adopted. Explanatory research design is a form of research design that aims to determine the causes and effects of a particular occurrence, according to Rich, Brians, Manheim, and Willnat (2018). In this work, the subject under consideration is the determinants of auditors among commercial banks in Ghana

3.2 Population of the Study

Mason et al. (2007) defined the population of the study as the whole of all potential subjects, objects, or measurements of interest. According to Cox (2008), the entire group of people, organizations and groups from which the study's population is chosen constitutes the target population. The target population for the study is the total number of selected commercial banks in Ghana for the purpose of the study.

3.3 Sampling and Sampling Techniques

Acheson (2012) defines sample size as the number of subjects in a study. It is the collection of elements, units, or members of a population used to make claims about the total population. From the target population of twenty-two (22) commercial banks in Ghana board. The researcher selected seventeen (17) commercial banks for the purpose of this work. The selection was based on the accessibility of the ten (10) years financial data and annual reports of these commercial banks. It was not easy to access all the annual reports and financial statements of these commercial banks for the ten (10) year period so there was a need to deploy a means of gathering data from a sizable number of the banks and for that matter, a convenient sampling method was adopted for the data collection. According to Dörnyei (2007), a convenience sampling is a nonprobabilistic sampling strategy that picks the units to be included in the sample because they are the most accessible to researchers. This may be due to accessibility of information at a particular time of the research and other constrain elements. Mugenda and Mugenda (2003) indicated that a sample size of 10%-50% is adequate for descriptive study; thus, a sample of 17 (which represent 77.27 %) was drawn from the total population of twenty-two (22) commercial banks in Ghana..

3.3.1 Sample Selection

The selection criteria for including or excluding specific firms from the study on the determinants of external auditors' choice among commercial banks in Ghana are crucial for ensuring the research's validity and relevance. This section will explain the inclusion and exclusion criteria used in the study, which help to define the sample and ensure its representativeness.

Inclusion Criteria:

The study focuses specifically on commercial banks in Ghana as they play a significant role in the country's financial sector. Commercial banks are involved in deposit-taking, lending, and other financial intermediation activities, making them a key subject of interest for examining auditors' choice in the banking industry (Biekpe & Gockel, 2015). Consequently, only commercial banks licensed by the Bank of Ghana will be included in the study (Bank of Ghana, n.d.). The availability of audited financial statements is crucial for analyzing the determinants of auditors' choice. Therefore, banks that regularly publish their financial statements and make them easily accessible to the public will be included in the study. This criterion ensures that the necessary data for analysis is readily available (Gyasi, 2019). The study will specify a specific time period for data collection, typically focusing on recent years. This criterion ensures that the study captures current trends and practices in auditors' choice among commercial banks in Ghana. For example, the study may include banks with audited financial statements for the past five years, providing a sufficient and recent dataset for analysis (Sakyi et al., 2016).

Exclusion Criteria:

Non-banking financial institutions, such as microfinance institutions or insurance companies, will be excluded from the study. This criterion maintains the focus on commercial banks, which have distinct characteristics and regulatory frameworks compared to other financial institutions (Bank of Ghana, n.d.; Biekpe & Gockel, 2015).

Banks with limited or incomplete financial data will be excluded from the study to ensure the reliability and robustness of the analysis. This criterion ensures that the sample consists of banks with comprehensive financial information necessary for accurate assessments of auditors' choice determinants (Gyasi, 2019).

Banks that have recently undergone significant mergers or acquisitions may experience changes in their auditing practices, potentially influencing auditors' choice. Therefore, banks that have undergone such corporate events within a specified time frame may be excluded from the study to maintain the stability and comparability of the sample (Biekpe & Gockel, 2015).

3.4 Data and Data Collection

Data refers to the information an investigator collects from the subjects, objects or units in the sample. Secondary data was collected for the purpose of the analysis. The data were collected using information in the published annual report and the financial statements of the selected commercial banks. The data of the selected commercial banks in Ghana were collected in an excel spreadsheet format for statistical analysis. The data took into consideration the determinants of auditors' choice for commercial banks in Ghana.

The data was centered on three major determinants of auditors' choice and these are the profitability of the banks, the size of the bank and the corporate governance system . The data collection with respect to the size of the bank, the researcher considered the variables such as the total assets, the net assets and the cash and cash equivalents of the selected banks. With respect to the profitability of the bank, the study took into considered the net profit after tax, returns on assets, Leverage and the firm size. On corporate governance system, the study covered corporate governance characteristic such as the board size, CEO duality, the board independence and the audit committee independence

3.5 Empirical Estimation Technique

With the help of the Stata, the data was analyzed. The relationship among the dependent and independent variables would be ascertained via a correlation test analysis. To ascertain whether the predictor variables had any effect (contribution) on the criterion variables, the researcher performed logistic regression model. To ascertain a lower average variance among the predictors, the researcher performed Variance Inflation Factor analysis (VIF). To identify whether there is a relationship among the Banks and the Audit firms, Chi-square test was performed.

3.6 Model Specification

$$BIG4_{i,t} = \beta_0 + \beta_1 ROA_{i,t} + \beta_2 SIZE_{i,t} + \beta_3 BOARDSIZE_{i,t} + \beta_4 BoardIND_{i,t} + \beta_5 LEVERAGE_{i,t} + \beta_6 CASH_{i,t} + \beta_7 AU - IND_{i,t} + \varepsilon_{i,t}$$

Where $BIG4_{i,t}$ is the Auditors Choice of bank i at time t, $ROA_{i,t}$ is the profitability of bank i at time t, $SIZE_{i,t}$ is the size of bank i at time t, $BoardSize_{i,t}$ is the size of the board of bank i at time t, $BoardIND_{i,t}$ is the portion of non-executive directors of the board of bank i at time t, $LEVERAGE_{i,t}$ is the debt to banks i at time t, $CASH_{i,t}$ is the proportion of total assets that makes up cash of bank i at time t, $AU - IND_{i,t}$ is the level of audit committee independence and $\varepsilon_{i,t}$ is the error term in the model.

3.7 Diagnostic Test

3.7.1 Multicollinearity test

Multicollinearity refers to the presence of high correlation among independent variables within a regression model. This problem can bias the results, making it challenging to interpret the individual effects of these predictors on the dependent variable (Kennedy, 2008). Diagnostic tests for multicollinearity serve as essential tools to identify and assess the extent of this issue. The correlation matrix and Variance Inflation Factor (VIF) diagnostic analysis would be performed to test for this problem.

3.7.2 Hosmer-Lemeshow Test

The Hosmer-Lemeshow test is a popular goodness-of-fit test for logistic regression models. It evaluates how well the model's predicted probability matches the observed results. The test entails categorising the data into multiple categories based on the logistic regression model's projected probability. The observed and predicted number of outcomes within each category are then compared. The test computes a chi-squared statistic, and the p-value associated with it determines if there is a substantial mismatch between the model's predicted probability and the actual outcomes. A low p-value indicates poor model fit.

3.8 Variable Description and Measurement

Variable description and measurement provided the dependent, independent and control variables and how they were measured in the study as per the table below.

Table 4.1: Variable Description and Measurement

	Measurement	Source

Variables		
Dependent Variables		Matonti *et al.*, 2016)
Auditors Choice	Dummy variable with value as choice for the Big 4 and 0 as otherwise	
Independent Variables		
Profitability (ROA)	Firm profitability Net profit/Total Assets	Matonti *et al.*, 2016
Bank Size	Measurement of assets and operational complexity i.e. natural logarithm of total assets	Matonti *et al.*, 2016
Board size	Number of members on the banks board	Elshandidy, 2022
Board Independence	Percentage of non-executive directors in the bank's board	Matonti *et al.*, 2016
Control Variables		
Leverage	Debt to bank, other capital providers and bondholders scaled by total assets	Matonti *et al.*, 2016
Cash	Cash and cash equivalents, i.e. stock of cash and cash equivalents scaled by total assets	Matonti *et al.*, 2016
Audit committee Independence	The number of independent members of the audit committee over the total number of the audit committee members	Lawrence *et al.*, 2000

Source: Authors Construct, 2023

3.9 Chapter Summary

Chapter three covered how the research was conducted. The study used a quantitative methodology to achieve the study objective. In essence, the analytical research design was used. The study objectives were evaluated using secondary data obtained from audited annual reports and financial statements of commercial banks operating in Ghana over 10 years (from 2011 to 2020). The logistic regression model would be used to arrive at the study findings and the Hosmer-Lemeshow test would be performed to test the goodness-of-fit of the logistic regression model.

CHAPTER FOUR

RESULTS AND DISCUSSIONS

4.0 Introduction

This section presents and discusses the results of the bank choice for an auditor. Since selected seventeen (17) commercial banks' annual reports (2011 to 2020) were used for the data analysis, one hundred and seventy (170) sample sizes were obtained. The overall aim of the study was to examine the empirical relationship among auditors' choice and its determinants. With the help of Stata software, the following statistical analyses were generated: Descriptive statistics, Correlation analysis, Variance inflation factor and Logistics regression model.

4.1 Descriptive Statistics

Table 4.1 presents the descriptive statistics for the variables under consideration in this study. These statistics, including the number of observations, mean, standard deviations, maximum, and minimum values, offer valuable insights into the dataset. The utilization of descriptive analysis aids in understanding and interpreting the data more effectively (Zikmund et al., 2003).

Table 4.1: Descriptive Statistics

Variable	Observation	Mean	Standard Deviation	Minimum	Maximum
AUDIT CHOICE	170	.876	.33	0	1
ROA	170	.045	.087	-.102	.626
FIRMSIZE	170	22.81	2.448	18.625	29.769
BOARD SIZE	170	9.465	1.734	5	13
BOARD INDEPENDENCE	170	.465	.263	0	.875
LEVERAGE	170	.837	.112	.005	.975
CASH	170	.197	.111	.025	.996
AUDIT COMMITTEE	170	.848	.273	0	1

Source: Author Computation (2023)

From the Table 4.1, it is evident that the mean value of Auditors Choice is 0.876. This implies that, on average, approximately 88 per cent of the banks had their financial statement been audited by the BIG 4 audit firms, while a 12 per cent of the banks were audited by non-Big 4 audit firms. The sampled commercial banks are having an average board size of 9 members approximately with some having a minimum of 5 to a maximum of 13. Furthermore, the standard deviation of 1.734 emphasizes the extent of this variation among the sampled banks used in the study.

The variable Board Independence shows a mean value of 2.266. Notably, the values range from some banks among the sampled companies having a board composition with no independent non-executive directors represented on the board depicting a minimum of 0 to a maximum of 72.27 per cent non-executive members forming part of the board. It's worth highlighting that, on average, non-executive directors constituted 84.8% of the audited firms. Return on Assets as a proxy for banks profitability shows a mean value of 0.047. The data reveals a range from a minimum of -0.102 to a maximum of 0.626, signifying the diversity in asset performance among the sampled banks. Examining the "Leverage" variable, the mean value is computed as 0.903 with minimum values of 0.005 to a maximum of 8.226, explaining the level of variation in the leverage levels across the listed banks on the Ghana Stock Exchange. Finally, in terms of bank Size, the mean value is 22.787. The dataset's scope extends from a minimum size of 18.625 to a maximum of 29.769, indicating diversity in the sizes of banks in the Ghanaian context.

4.2 Correlation Analysis

From Table 4.2, the results show a positive correlation between board size and audit committee independence. This suggests that larger board sizes are likely to be associated with more substantial representation of independent directors in the audit committee. Board size positively correlates with Return on Assets (ROA), Leverage and Firm Size. This suggests that companies with higher board independence are most likely to be associated with larger banks and also could probably exhibit improved financial performance (Return on Assets) and may have a higher leverage ratio. This could imply that independence of the sampled banks is likely to be associated with the strategic decisions that influence both profitability and capital structure.

Further, Table 4.2 shows the correlation between Return on Assets and Leverage is positive and statistically significant the Return on Assets of the listed banks increases (indicating better asset profitability), there is a tendency for its Leverage (debt relative to equity) to also increase. Conversely, when Return on Assets decreases, there's a tendency for Leverage to decrease as well. This could also imply banks with better returns on their assets might be more willing to take on debt since they have a better ability to meet the debt obligation when due for payment. The problem of multicollinearity does not exist since all the correlation coefficient between the dependent variables are below the 0.8 threshold (Kennedy, 2000). From the Table 4.3 **Error! Reference source not found.** VIF results in table All the Variance Inflator actors (VIF) are all below the 5 thresholds also affirming the problem of multicollinearity does not exist.

Table 4.2: Pairwise Correlations

Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
(1) AUDIT_CHOICE	1.000							
(2) ROA	0.123	1.000						
(3) FIRMSIZE	0.161*	-0.050	1.000					
(4) BOARD_SIZE	0.142	0.187*	0.286*	1.000				
(5) BOARD_INDEPEND~E	0.212*	-0.198*	0.361*	-0.096	1.000			
(6) LEVERAGE	-0.149	0.125	0.278*	0.276*	0.069	1.000		
(7) CASH	-0.028	-0.118	-0.126	-0.249*	-0.061	-0.388*	1.000	
(8) AUDIT_COMMITTEE	-0.122	0.032	0.012	0.324*	-0.050	0.103	-0.030	1.000

Source: Author Computation (2023)

4.3 Logistic Regression Results

Table 4.3 presents the results of our model of auditors' choice among commercial banks in Ghana. This is to contribute to the study of the dynamics affecting auditors' choices and offer insights for decision-making contexts related to auditing practices. The dependent variable takes a value of 1 where the auditing firm of the bank is a BIG 4 and 0 where it is a non-BIG 4. Each coefficient represents the change in the log-odds of the dependent variable for a one-unit change in the corresponding independent variable while holding other variables constant. The independent variables except firm size show a significant association with auditor choice. Return on Assets (Profitability) shows a positive and significant relationship with auditor choice (β = 23.975, P-Value = 0.1), indicating banks with higher profitability are associated with an increase in the log-odds of the specific auditor choice they go for. Firm size also shows a statistically insignificant but positive association with auditor choice (β = 0.214, P-Value = insignificant). Board size is also significant and positively associated with auditor choice (β = 0.506, P-Value = 0.05). Board independence is positive and significant with auditor choice ((β = 3.307, P-Value = 0.01).

Table 4.3: Regression results

	(Logistic Regression Model) Auditors Choice
ROA	23.975* (13.523)
BANK SIZE	.214 (.214)
BOARD_SIZE	.506** (.251)
BOARD_INDEPENDENCE	3.307*** (1.217)

LEVERAGE	-21.219***	
	(8.213)	
CASH	-.212	
	(2.891)	
AUDIT_COMMITTEE	-3.559*	
	(1.969)	
_cons	12.146	
	(8.402)	
Observations	170	
Pseudo R^2	.343	
Hosmer–Lemeshow Goodness-of-fit test	chi2(8) =1.52	Prob > chi2 =0.9923

Source: Author Computation (2023)

From the results, leverage and audit committee independence show a negative but significant cause-and-effect relationship with auditor choice at the 0.05 and 0.1 significant levels, with their coefficients of -21.219 and -3.559, respectively. But the cash scaled by total assets shows a negative coefficient of -0.212, which is statistically insignificant. The model's overall performance, as indicated by a pseudo-R-squared value of 0.343, suggests that 34.3% of the outcome's variation was explained. Furthermore, the Hosmer-Lemeshow goodness-of-fit test revealed a well-fitting model (p = 0.9923).

4.4 Discussion of Empirical Findings

4.4.1 Impact of banks' Profitability on External Auditors' Choice

The significant positive association of profitability and external auditor choice indicates that as profitability increases, the likelihood of commercial banks in Ghana selecting certain external auditors also increases. This positive relationship implies that more profitable banks are more likely to choose specific external auditors for their financial auditing processes. This finding is consistent with the study of Joshi and Al-Bastaki,

(2000) which argued that successful business enterprises often require a rigorous and high-quality audit of their financial statements therefore would inform the specific auditor they would go for. This necessity arises from the situation where reporting substantial profit margins for a given period necessitates the involvement of audit expertise. This is crucial to provide shareholders with trustworthy information that accurately corresponds to the figures presented within the financial statements consistent with the financial objectives of firms. By engaging in such accurate auditing practices, businesses aim to ensure the reliability and credibility of their reported profits, ultimately fostering investor confidence and informed decision-making.

4.4.2 Impact of the banks' Size on External Auditors' Choice

The investigation of the influence of bank size on external auditors' choices produced a non-significant coefficient. This finding implies that, contrary to popular belief, business size may not be a deciding factor in the audit selection process. Despite the non-significant conclusion, it is important to recognise that the relationship between bank size and audit selection may be influenced by banking sector individualities, the banks organisational structures, or banks economic situations. Consistent with Matonti *et al.*, (2016) the state of organizational structure interpretation of this positive coefficient underscores a noteworthy correspondence between an organization's size and its choice of external auditors within the context of commercial banks in Ghana. This finding can be illuminated by investigating into the complicated interplay of agency costs and the challenges associated with effective oversight within larger banks.

As argued by Jensen and Meckling, (1976) the act of monitoring becomes inherently more intricate and resource-intensive as organizations expand in scale. The necessity to safeguard shareholder interests through vigilant supervision becomes paramount as a company's dimensions grow (Matonti *et al.*, 2016). Furthermore, the proposition put forth by Abdel-Khalik (1993) gains particular relevance here, as it highlights that larger companies entail higher stakes of wealth at risk, consequently amplifying the level of agency costs incurred. Considering these insights, the empirical observation that larger firms exhibit a greater inclination to select external auditors highlights the strategic significance of such appointments in effectively addressing the heightened complexities and risks intrinsic to expansive organizational structures (Matonti *et al.*, 2016).

4.4.3 Impact of banks Corporate Governance System on External Auditors' Choice

Examining the impact of the corporate governance system, particularly board-related factors, on external auditors' choices shows a significant association and gives more insight into some corporate governance factors that inform external auditors choice of banks. Consistent with the study of Matonti *et al.*, (2016) banks with large boards with the presence of a highly independent non-executive board of directors indicate that banks with a more independent board structure are more likely to make a specific audit choice. This alignment could be attributed to the enhanced oversight and transparency associated with independent boards, thus driving auditors' preferences.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.0 Introduction

This chapter provides summary of findings for the study on the determinants of auditors' choice for Commercial Banks in Ghana for a ten (10) year period (2011-2020) and also conclusions and recommendations. The chapter is organized into four (4) main sections. Section 5.1 presents a summary of findings, Section 5.2 conclusion on major findings, section 5.3 on the policy implication and recommendations and section 5.4 provides limitations of the study and also provides suggestions for further research.

5.1 Summary of Findings

The objectivity of independent auditors has been criticised following the collapse of business organization after the issuance of audited financial statements. These have sparked worries regarding the reliability of the external auditors' reports and hence the need to take into account factors that affect the choice of external auditors among commercial banks in Ghana. The purpose of this study investigated the determinants of external auditors' choice among commercial banks in Ghana and finds that profitability against audits choice depict significant and positive relation which implies the firm's profitability has high effect on auditors' choice. This confirms that profitability is a key determinant of auditors' choice and could exhibit improved financial performance. Contrarily, the findings indicate firm size is non-significant however, positively related to auditors' choice. This means there were some factors that may cause firm size to be significant but was not considered. The findings indicate a significant and positive relationship among corporate governance and audit choice. The findings reveal that corporate governance characteristics are very relevant and act as a major inducement for auditors' choice determinants.

5.2 Conclusion

The aim of the study was to investigate the determinants of external auditors' choice among commercial banks in Ghana with the specific objective to evaluate the effect of the profitability of commercial in determining their external auditors' choice in Ghana, assess the effect of the size of commercial banks in determining their external auditors' choice in Ghana and examine the effects of the corporate governance system on commercial banks in determining their external auditors' choice in Ghana. A considerable positive relationship was found between bank profitability and their use of external auditors. This shows that when banks' profitability grows, they are more likely to hire specialised external auditors. This study supports the idea that successful organisations emphasise thorough and high-quality audits of their finances in order to appropriately reflect their significant profit margins. Such practices are intended to increase shareholder trust, enhance credibility, and enable informed decision-making.

Contrary to popular belief, the influence of bank size on auditor choice appears insignificant, suggesting that size might not be a decisive factor in this process due to banking sector nuances and organizational complexities. While bigger organisational structures may seem to imply a higher requirement for audit control, the research reveals that other factors such as the banking sector's unique characteristics, organisational structures, and economic conditions may be more relevant in the audit selection process.

It was discovered that the corporate governance structure, particularly board-related characteristics like board size and board independence, played a substantial role in the selection of external auditors. Banks with bigger boards of directors that included highly independent non-executive members were more likely to choose certain auditors. This convergence emphasises the significance of openness, supervision, and good governance processes in informing auditors' choices. Boards are more inclined to make specific audit selections, underlining the role of transparency and oversight in shaping auditors' preferences which was consisted with Jensen and Meckling, (1976) agency theory. The findings help us understand how these elements interact to influence decision-making processes in the banking sector, eventually affecting financial reporting accuracy, shareholder trust, and the industry's overall stability.

5.3 Policy Implications and Recommendations

In order to enhance consistency in the process of choosing an audit firm, audit market regulators could design a framework of basic requirement and define the framework with reference factors that influences the choice of an audit firm. The period considered for the study was ten years ranging from 2011 to 2020. Research could be expanded to include current years.

5.4 Suggestions for further research

In order to close the gap between the market share of the big four audit firms and the non-big four audit firms, future research could place emphasis on the audit quality provided by the non-big four firms. The findings might provide insights into how the non- big four audit firms deliver their audit services with regard to audit quality and provide recommendations for the improvement of their audit quality delivery. Secondly, the factors considered in the study are quantity in nature. Future study could consider qualitative factors to take into accounts the views of the board of directors and corporate managers on the determinants of auditors' choice.

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