

**EFFECT OF AUDIT QUALITY ON THE FINANCIAL PERFORMANCE OF
SELECTED BANKS IN GHANA**

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By

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DEDICATION

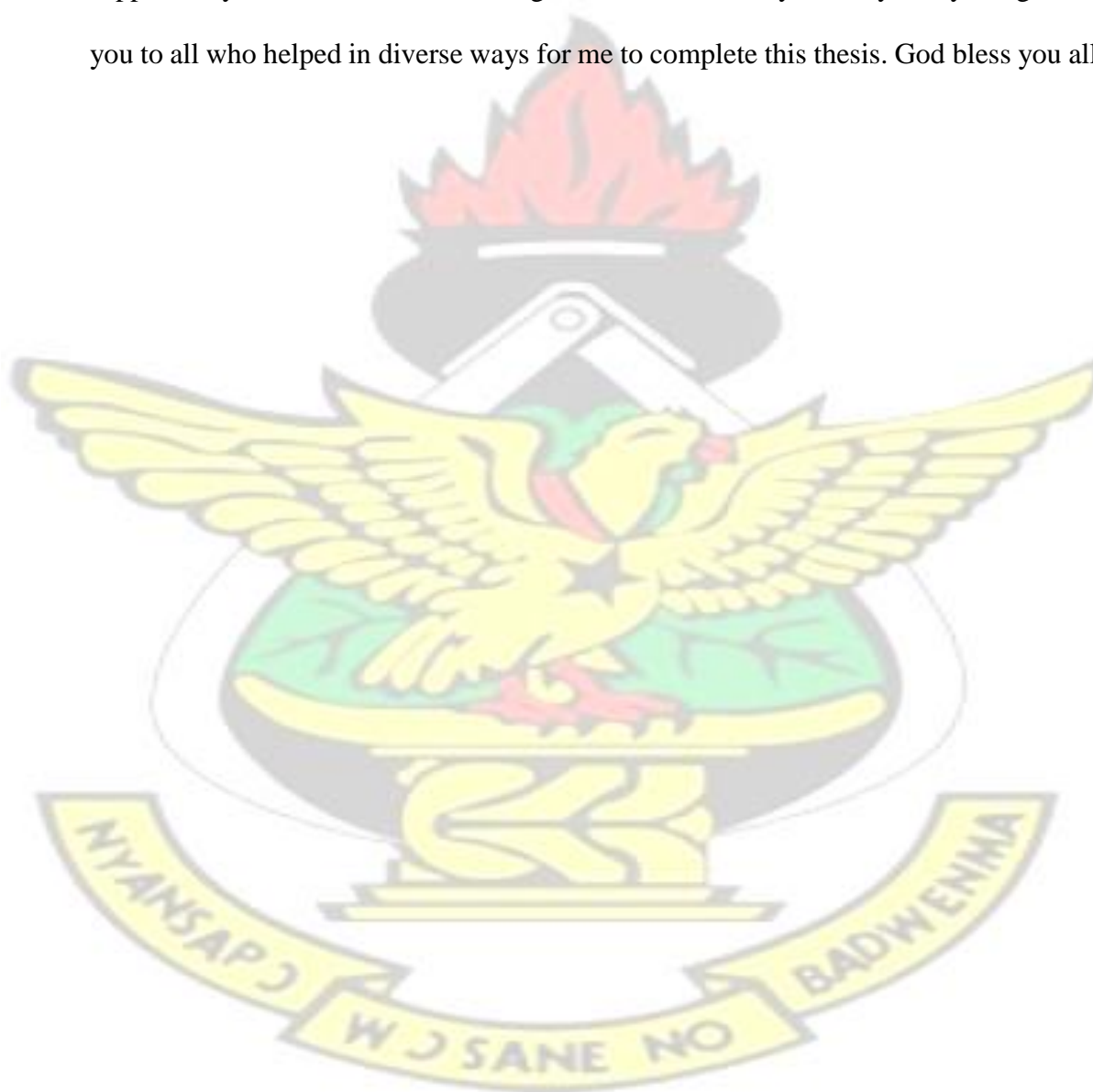
I dedicate this work to God Almighty for his guidance. Secondly to my entire family for their immense support. God bless you all.

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ABSTRACT

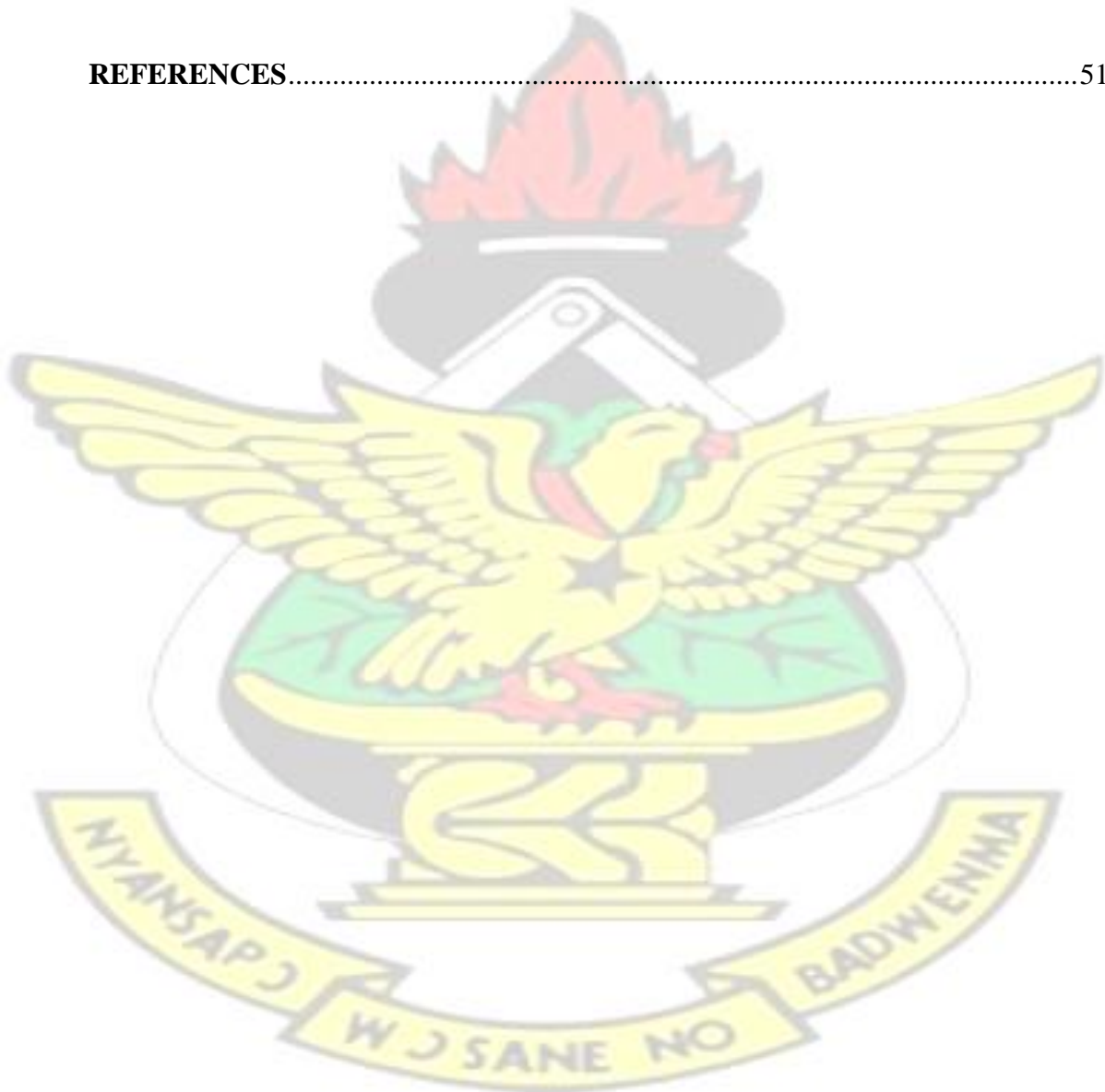
This study examines the effect of audit quality on the financial performance of selected banks in Ghana. This study specifically sought to examine; the quality of audit, the financial performance, and confirm the relationship that exists between audit quality and the financial performance of these selected banks. The study adopts a quantitative research design and the purposive sampling method is used to select the banks. The study also uses secondary data of the annual financial reports of the five sampled listed banks from 2014 to 2018 used to achieve the objectives. Data was coded and scrutinized by the use of descriptive statistics using Excel 2019. STATA version 14 is used to analyze the descriptive and inferential statistics including correlation tests and regression. The result shows that audit fees have a negligible positive relationship with financial performance. However, there is a moderate inverse relationship between Audit fees and financial performance, and whiles audit experience has moderate inverse effect, with Audit independence has weak positive effect with financial performance. Based on the regression, Audit experience was found to have any significant effect on financial performance, audit fees, audit size and audit independence had no significant effect on financial performance. Based on the outcomes and findings of the study, it can be concluded that generally, audit experience affects financial performance, and the study recommends that therefore there is the need for institutions especially in the banking sector to pay closer attention to audit experience and put in measures to engage auditing firms that have more experience.

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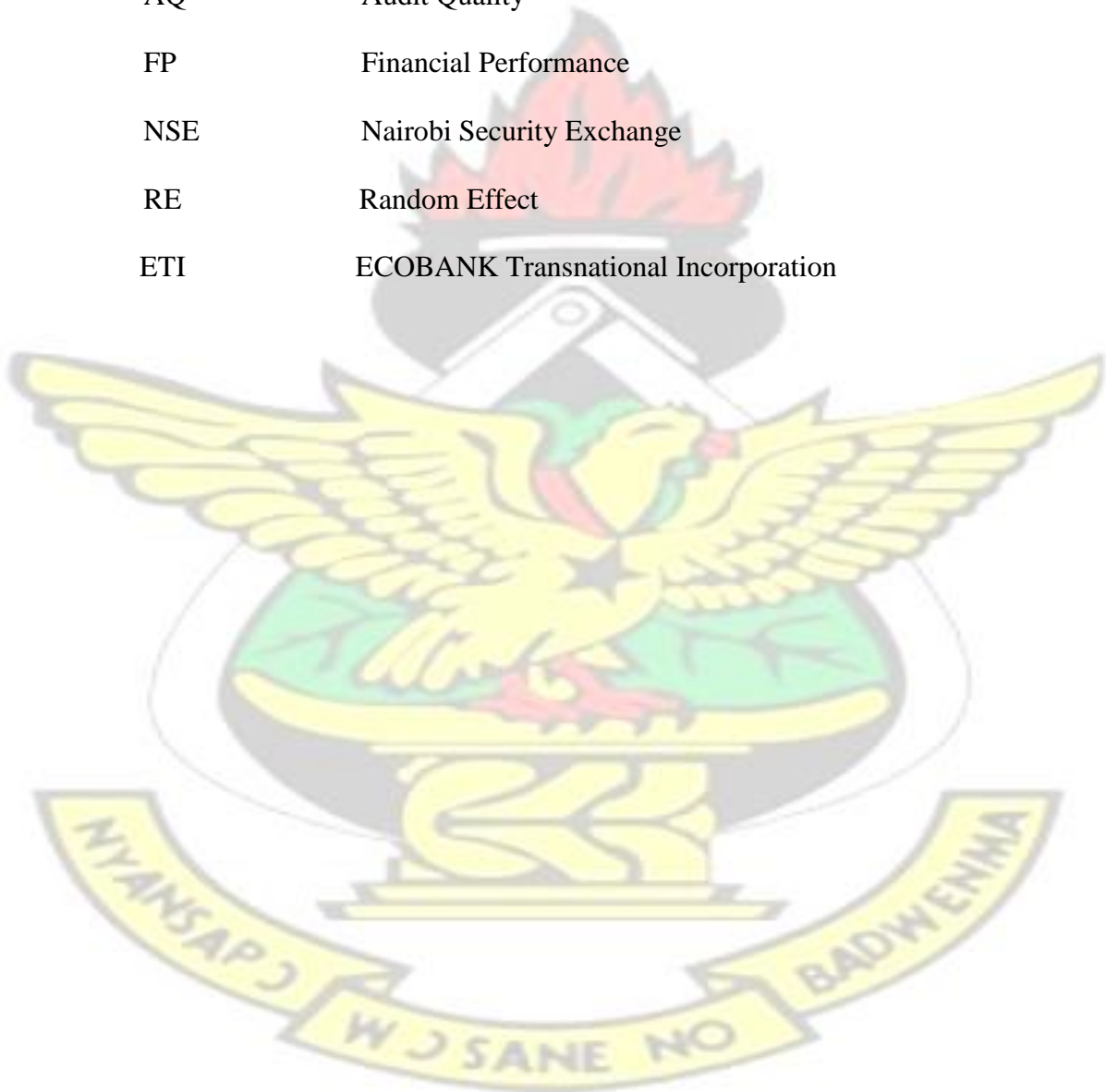
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LIST OF ABBREVIATIONS

IAASB	International Auditing and Assurance Standard Board
ROA	Return on Asset
ROE	Return on Equity
GCB	Ghana Commercial Bank
SCB	Standard Chartered Bank
AQ	Audit Quality
FP	Financial Performance
NSE	Nairobi Security Exchange
RE	Random Effect
ETI	ECOBANK Transnational Incorporation



CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Issues surrounding the impact of the global financial crisis across the world and the financial crisis of Ghana's finance sector in recent times highlights the need for credible financial reporting (U-ungwa, 2017). A Financial Report that is credible in this context refers to a financial statement carrying an audit opinion of a certain quality (Elewa, and El-Haddad, 2019). It is important to mention that whereas, an audit is a legal requirement, it also a professional requirement that provides users of accounting information with assurances or confidence in a published financial report. Audit activities play important role in the supervisory and regulatory infrastructure which makes it a significant activity of public interest (U-ungwa., 2017). In the practice of audit today, one of the most important concerns is the quality of audit with several groups and individuals locally and globally having an interest in it. These users are keen on knowing the information about the quality of financial audited reports (IAASB, 2011; Heil, 2012).

The audit reports of firms' operations are intended to provide the users of such reports with relevant, reliable, and comparable information to permit informed decisions (Kamaruzaman, Mazlifa, and Maisarah, 2009). There has been a challenge with researchers having a common explanation of audit quality. One definition of audit quality is that of DeAngelo (1981) whose definition is one of the most commonly accepted ones. He defines it as the assessment of the likelihood that auditors will identify significant employer's accounting systems or financial statements distortions and report material misstatements. In Ghana, for example, concerns have been raised by the general public due to the collapse of several banks that were not preceded by

audit red flags, even though many of the affected banks' published accounts were signed by auditors of high repute (U-ungwa, 2017). Researchers such as U-ungwa. (2017), Elewa, and El-Haddad (2019), Choi, Kim, and Zang (2010) have provided different ways of measuring audit quality. The ways of measuring include but are not limited to the use of audit firm size, audit fees, audit rotation, audit firms' experience, audit tenure, auditor independence, and audit opinion as audit quality proxies. Sound financial statements made by independent auditors are what provide financial performance information (McCormack and Johnson, 2001).

Several accounting base measures of financial performance exist, which include; return on assets, return on sales, net profit margin, and return on equity are widely used. They possess the advantage of providing leniency in the computation of the financial position and health of the organization (Situmorang and Hansen 2005). One monitoring tool that serves as a means for reducing information asymmetry and protect various stakeholder interests are financial statement audits. It provides reasonable assurance that the financial statements of management are credible. Matoke and Omwenga, (2016), Ruud (2003), Elewa and El-Haddad (2019), Njung'e (2019), Amoh (2017), and Siala and Jarboui. (2019) in their studies, showed a positive relationship between certain audit quality proxies and financial performance; while studies by Mikes and Kaplan (2014), and Gunny and Abbott (2013) have shown some audit quality proxies to have a negative relationship with financial performance. There is the need therefore to strike a balance between audit quality proxies such as auditors firm size, auditors' remuneration, auditors' experience, and auditors' independence, and financial performance. There is therefore an evidence gap which this study contributes to the debate to ascertain the effect of audit quality on firm performance.

1.2 Problem Statement

Audit of financial statements is a vital part of the supervisory and regulatory framework which is of public interest. The extent to which audit lends credence to the reliability of financial statements, in turn, depends on the quality of audit services rendered (Affes and Smii, 2016). The joint probability that the auditor detects and reports questionable accounting practices of the firm is what audit quality is about (Tyokoso and Tsegba, 2016). The five most popular proxies for a measure of audit quality are (i) Auditor size; (iii) Audit fees; going concern opinions; (iv) earnings restatements; and (v) discretionary accruals, signed and unsigned; In this research audit quality proxies such as auditor firm size, auditor experience, independence, and remuneration will be used. Audit quality is therefore capable of influencing corporate performance, through mitigation of risks and significant misstatements. The lower risk of misstatements consequently increases the confidence of capital market investors in financial reports which also decreases the cost of capital and increases the market valuation of the firm (Heil, 2012). Users of audited financial statements, therefore, believe that the information it contains is completely free from material bias and so depend on it to allocate scarce economic resources with expectations of commensurate returns.

There are relatively few studies in Ghana such as (Mawutor, Francis and Obeng, 2019; Coffie, Bedi and Amidu, 2018; and Baldavoo and Nomlala, 2019) that have looked at the relationship that exists between audit quality and performance of listed firms especially since the financial clean up that saw the collapse of 7 banks. This has called into question the quality of audit services and reported the performance of listed Ghanaian companies. Baldavoo and Nomlala (2019) in their study examined audit quality on firm performance using corporate governance as a measure. The study focused on thirty-six Ghanaian banks resulted in audit quality having a positive impact

on firm performance when there is effective corporate governance. Coffie, Bedi, and Amidu focusing on listed and non-listed financial firms undertook a study on the effect of audit quality on the cost of capital of firms in Ghana. None of these researchers have considered the relationship between financial performance and audit quality of commercial banks in Ghana. Therefore, there is a need to fill this gap by undertaking this study. As noted in the Background of the Study, section above, whereas studies such as Nyunyi (2012), Violet and Jane (2016), Carson, Hanemann, Kopp, Presser, and Ruud (2003), have shown a positive relationship between certain audit quality proxies and financial performance; studies by Mike and Kaplan (2013) and Katherine and Tracey (2013) have shown some audit quality proxies to have a negative relationship with financial performance. There is the need therefore to strike a balance between audit quality proxies such as auditors' remuneration, auditors' experience, auditors' independence, and financial performance. There is therefore an evidence gap which this study contributes to the debate to ascertain the effect of audit quality on firm performance. The research work is carried out due to this background. The study's aim, therefore, is to determine the impact of audit quality on the financial performance of selected banks in Ghana.

1.3 Objectives of the Study

The main objective of the study is to examine the effect of audit quality on the financial performance of selected banks in Ghana. The study specifically seeks:

1. To examine the quality of audit of these banks.
2. To examine the financial performance of these selected banks.
3. To determine the relationship between audit quality and the financial performance of these selected banks.

1.4 Research Questions

The study seeks to answer the questions below:

1. What is the quality of audit of these banks?
2. What are the financial performances of these selected banks?
3. What is the relationship between audit quality and the financial performance of these selected banks?

1.5 Significance of the Study

Examining the association and impact of audit quality on financial performance is essential in Ghana especially when banks are seeking to attain more credibility among global and local investors after the financial sector crisis where auditors gave credibility to the financial statements of these affected banks. The purpose of the study is to investigate the impact of audit quality on the financial performance of some banks in Ghana empirically. The study will assist policymakers and other relevant stakeholders in Ghana such as the Securities and Exchange Commission, Chartered Institute of Bankers, the regulators of the auditing and accountancy profession, among others to formulate new policy guidelines, or improve on the existing corporate governance systems to ensure that the Auditors credibly play their lending roles reliably and more effectively to promote audit quality and avoidance of fraudulent activities and other financial misconducts. The study will also provide an insight into the activities of external auditors. Findings from the study will also provide adequate information for future policies that will streamline and strengthen the activities of auditors in enhancing the credibility of financial statements which in turn affects the financial performance of the institution. Results of this research will provide a means for discussion on external audit function, audit quality, as well as a, become a reference material on other similar topics for researchers, students, lecturers, and industry practitioners.

1.6 Scope of the Study

This study targets audit firms providing assurance services for selected banks in Ghana. In Ghana, the banking industry is made up of all the commercial banks, universal banks, rural and community banks, and other financial institutions such as savings and loans, credit unions, and susu collectors. For this study, Commercial banks and Universal Banks will be the focus. Ghana commercial bank (GCB), Stanbic bank Ghana (SBG), Standard chartered bank (SCB) and Fidelity Bank will be used for the study. These banks are licensed by the Bank of Ghana to provide banking services and have met the minimum capital requirements in Ghana. These banks have been chosen because of their strong financial position in the banking sector as well as their existence for some years. GCB is currently one of the few financial institutions that have a presence in all the sixteen (16) regions of Ghana.

1.7 Limitation of the Study

This study focuses on only selected banks. The results, therefore, may not apply to other types of financial institutions. Also, since the study is restricted geographically, the offers and packages that other banks provide will be strictly different from that of these selected banks. Thus, economic policies when implemented in Ghana based on this study may not be effective in the other sectors of the banking industry of Ghana. Also, there are relatively few studies in Ghana that has looked into the relationship between audit quality and performance of selected banks even though some companies in Ghana from the banking sector have been accused of inflating performance amidst clean audit reports from highly reputable audit firms in Ghana which led to the fining of audit firms such as Deloitte. This calls to question the quality of audit services and reported the performance of Banks in Ghana.

1.8 Overview of Methodology

The study adopted the quantitative method in order to provide a comprehensive analysis of the research problem. The researcher further adopted secondary means of data collection. Secondary data is collected for five years (2014 to 2018) from annual reports of the bank. A sample size of five out of a population of twenty-four listed banks is used by the researcher. Multiple regression analysis is adopted to collect data and analyze it by using STATA version 14 and Excel 2019. The results were presented in the form of graphs, charts, tables, and narrative statements.

1.9 Organization of the Study

The research is structured into five chapters. The first chapter of the study, the introductory part contains the background of the study followed by the problem statement, the objectives of the study, the research questions, significance of the study, the scope of the study, limitations of the study, an overview of the methodology and the organization of the study. Chapter Two focuses on the literature review of the study consisting of conceptual, theoretical, and empirical reviews as well as the conceptual model. Chapter Three describes the methodology that was used for the study and it includes the research design, data sources, and collection, data analysis, population of the study, sample size and sampling population, variable measurement, model formulation, validity and reliability of data, ethical issues, a profile of the study and the summary. Chapter Four outlines and analyzes the results of the study. And finally, Chapter Five presents the findings, conclusions, and recommendations of the study.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter covers three sections; the first provides key definitions of the concepts; audit quality and firm performance and further give a diagrammatic illustration. This is followed by theories adopted for this research which is explained by referring to journals, articles, books, and other researchers, and finally the empirical studies.

2.1 Theoretical Review

An audit assures the management, owners, and investors of companies. It also supports the capital markets' confidence with corporate governance, regulations support, and financial reporting. Signaling theory, stakeholder theory, auditors' theory of inspired confidence, and agency theory, justify the prime role of reducing information asymmetries that auditing plays (Gerayli, Yanesari, and Ma'atoofi, 2011). These theories describe stakeholders' expectations of the auditors including providing a guarantee of the firm's financial health, safeguards against fraud, giving warning of future insolvency, protection of auditor independence, and comprehending audit reports (Volosin, 2008). This research will make use of three main theories; Agency theory, the theory of inspired confidence, and stakeholder theory.

2.1.1 Agency Theory

One frequent theory used in literature to examine information asymmetry between agents (management) and principals (shareholders) is the Agency theory. Agency theory is a contract under which a person (the agent) is employed by one or more individuals (principals) to conduct some services for them; consequently, any ensuing

decisions for the firm are made by the agent. This theory is grounded on the premise that the agents are privy to more information than the principals. Therefore Wowak (2011) argues that the likely challenge of the principal-agent relationship is “adverse selection” which occurs when the principals cannot access all the existing information at the time of decision and therefore not able to conclude whether management actions generate the greatest benefits to the firm. Agents and principals in the quest to reduce the chances of moral hazards engage in contracting for optimal achievement. This includes putting in place, monitoring processes such as auditing. The Agency theory of the principal-agent is vital in understanding the roles that auditing plays evolved. Agents are appointed by principals and are given delegated roles which includes some decision-making roles. By this, agents have trust being placed on them by principals to act in the best interest of the principals. Nonetheless, due to information asymmetry that may exist between agents and principals differing motives, the trust in the agents would be lower leading to the principals needing to put mechanisms such as auditing in place to emphasize this trust. Agency theory throws more light on the development of audit quality and hence, is a useful economic theory of accountability.

2.1.2 Theory of Inspired Confidence

The theory of inspired confidence unravels by the Limperg Institute in the Netherlands in 1985 also explains the social responsibility of the auditor. The theory suggests that the auditor as a confidential agent derives his function in society from the need for expert and independent examination and professional judgment. In performing his duties, the auditor is expected to approach his work with due care and diligence, realizing that the public expects no audit failures. Also, with many parties regarded as stakeholders who all have an interest in the organization due to direct and indirect investment contributions, there is a need for the demand for audit services. This is what

the theory posits. According to the theory, for the stakeholders to verify for reliability, faithfulness, and relevance for decision making, financial information from management is required (Ittonen, 2010). Discussing the social significance of auditing, Carmichael (2004) posits that the value relevance of audits is lost when the audit report and process is misplaced in the view of society. Auditors are, therefore, expected to ensure reasonable quality assurance. This is even more important given a career-ending event when an audit failure occurs. Audit assures the management and owners and organizations, stakeholders, and investors along with regulations support, corporate governance, and financial reporting confidence in the capital markets.

2.1.3 Stakeholder Theory

Another theory that relates audit quality to corporate performance is the stakeholder theory propounded by Freeman (2010). Stakeholders can be defined as a group of individuals whose decisions can affect the objectives of an organization. The theory assumes that values are necessary and explicitly needed as a part of doing business. The theory suggests managers have a network of relationships to serve which includes suppliers, lenders, employees, and other business partners. Managers are however to articulate their share sense of value they create to bring these stakeholders together. The theory also assumes that moral values and business ethics are essential in managing an organization. Colbert, Wheeler, and Freeman (2003) explain that this theory came about as a combination of the organizational and sociological disciplines. The theorists believe that in organizations, managers possess a network of relationships that include suppliers, employees, lenders, and other business partners who have the company's interests at heart. They make key decisions to realize the objectives of the organization like resource allocation and control and the activities that impact the organization and in one way or the other on others also. Stakeholders have diverse interests in the

organization, of either environmental or of an economic nature. The benefits of its stakeholders (owners, employees, customers, and local committees) should determine how the organization is managed and should maintain the survival of the firm.

2.2 Conceptual Review

Several processes are involved in auditing. It involves not only financial assessments but also the ascertaining and assessment of operational, processes and the strategic goals of any organization to see the extent to which they are adhering to laid down regulations and principles and conforming to organizational and regulatory requirements. There have been challenges in research done in this area having a common definition of audit quality. DeAngelo (1981), whose definition of audit quality is a common one, defined it as the valuation of the likelihood that the auditor would report any significant distortions detected in an employer's accounting system and financial statements. The two main concepts of the research; Audit quality which is proxied with auditor experience, independence, remuneration, and size is the independent variable and financial performance proxied with net profit margin, return on asset (ROA), and return on equity (ROE) is the dependent variable.

The job which the auditor does on the financial statement has been revealed by previous studies to have a relationship with corporate performance generally (Brown and Caylor, 2004; Internal Audit Board, 2011; Heil, 2012; Farouk and Hassan, 2014). The auditor in the course of his work offers management advice that may improve the reliability of the internal control system and reduce the tendencies for errors and fraud which erode corporate profits as according to Iliemena and Okoye (2019), the accumulated effect of fraud is detrimental to the firm. The more experienced the auditor is the better the

package he can offer the firm on ways to improve its financial performance. The independence of the Auditor is also part of the audit quality element. The independence of the audit firm, therefore, minimizes the tendency for the manipulation of accounts and financial performance.

Audit Quality is therefore an unrecognized additional asset to the reporting organization. Brown and Caylor (2004) posit that a firm that has a formal policy on auditor rotation in place, is positively related to firm performance. Bigger sized audit firms are ones that have been in existence for longer durations and have higher audit quality, which plays a role in affecting managements decisions and choices as to which accounting procedure to use and also discourages them from engaging in financial performance manipulations for personal interests. All these eventually lead to more reliable financial statements and reports. Even indirectly, audit quality has a lot to do with financial performance. For example; when a firm has performed badly in a period, audit quality ensures the right information is conveyed to the stakeholders which will awaken concerted effort towards better performance subsequently. When the stakeholders are allowed to go with the wrong impression about the firm when things are not well, it escalates to fingers being pointed at the audit firm on the eventual collapse of the firm.

2.3 Audit Quality (AQ)

Despite numerous attempts being made in the past to abstract “audit quality” none has attained universal acceptance and recognition (International Auditing and Assurance Standards Board, 2014). The market assessed joint probability of an auditor detecting an accounting system breach of a client and being able to report them is how DeAngelo (1981) defined audit quality. Various proxies conceptually affect audit quality which

includes; audit firm size, audit rotation, audit committee oversight, audit fees, and personal attributes associated with auditors such as competence, independence, qualification, and experience. These elements appear to link, as higher the audit fees, independence, competence, and plan are in line with the size of the audit firm. Qualification and experience also increase the quality of the audit and further increases the tendency for a true and fair financial statement audited.

Therefore, an audit is a combined word from ‘audire’, a latin word, which is interpreted as ‘to hear’ in line with the historical practice of ‘hearing’ account. Over the years, the role of auditors known as verifiers of official reports has evolved to include verifying reports. An external auditor is engaged to independently provide opinions concerning the financial statements of an organization which is fair and true and by so doing assure the reliability of financial statements to shareholders (Iliemena and Okolocha, 2019). One of the major threats facing investors is the failure of auditors in detecting material misstatement in the financial statement which questions reliability (Iliemena and Okoye, 2019), hence the need for audit quality. For an external auditor to achieve audit quality there are other attributes they should possess that are considered vital. The auditor’s ability to apply ethics, values, and standards, the attitude to the audit function, the knowledge and experience they possess, the tendency to dedicate adequate time to their work plus a laborious audit process are all necessary to attain audit quality (Gathigia, 2015). This is further added by (Iliemena, Racheal, Okolocha, and Bonaventure, 2019) who emphasis that, when the audit firms are bigger and have been in existence for a longer duration, it leads to the higher influence of the discretions of management concerning accounting procedures as a result of a higher quality of the audit. Again, it leads to lower motivation for management to manipulate financial performance for personal interest and higher reliable financial statements. The research

however focused on audit firm size, independence, fees, and experience as determinants of audit quality and represented as an independent variable. The research focused on the audit size, auditor's independence, audit fees, and auditors' experience as a measure for audit quality which is the independent variable.

2.3.1 Audit size

When it comes to the audit firm size, some studies have suggested ways to examine them. Critical and positive evaluations for firm size were discovered by (Stierwald, A., 2010). The results revealed that in terms of benefits, bigger firms have more than smaller ones. The execution by a firm is upgraded by its size. A way to clarify this is that, larger firms can get capital at a much lower cost compared to smaller ones. Firstenberg and Malkiel (1994) asserted that with eight or fewer individuals on board work has more cooperation, there is energy for prominent focus and real dialogue and collaborations. Defond and Zhang (2014) posit that output-based and input-based proxies are two usually used proxies to which audit quality can be grouped into. Audit fees and audit specific characteristics are what constitutes input-based proxies where audit size is the most known measure of audit-specific characteristics. Auditor size serves as the most popular measure for auditor-specific characteristics, specifically, whether or not the firm employed the services of the Big N auditing company (Defond et al. 2014). The perception is that the Big N auditing companies provide higher audit quality. With resources in terms of training, technology, and facilities the Big N have more given their scale (Khurana and Raman 2004; Craswell et al. 1995; Chaney, Jeter and Shivakumar 2004; Francis, Maydew, and Sparks. 1999). Again, the Big N is believed to be more independent relative to lower auditing companies since they (i) have a greater revenue base which increases their risk of litigation (ii) have their level of dependence on individual clients revenue is much lower hence cannot be easily

swayed by an individual client; and (ii) bear greater risk of suffering reputational if they become negligent (Stice, Albrecht, and Brown 1991; Palmrose 1988 Bonner et al. 1998; DeFond and Zhang 2014; Skinner and Srinivasan 2012; Koh, Rajgopal and Srinivasan, 2013;). However, being an indicator variable without many nuances, the Big N variable is not an engagement specific measure.

2.3.2 Independence

The studies by Badara and Saidin (2013), Hellman (2011), Al Matarneh (2011), reveals that auditors' independence mainly has to do with the level of freedom from any influential behavior, the dependence of any type and control by members of the company being audited. Auditors report to higher levels of administration of an institution for this reason depending on how the institution is structured. In some cases, auditors report to the audit committee. According to Baharud-din, Z., Shokiyah, and Ibrahim (2014) auditor independence increases confidence, credibility, and reliability to reports they produce after their auditing. This helps those who use the report to make effective decisions. This indirectly implies that audit independence affects the effective decision making based on the financial reports they provide.

2.3.3 Audit Fees

Higher audit fees are associated with the choices made for the services of qualified auditors (Hay and Davis, 2004). A relevant measure of audit quality, audit fees have been employed by many researchers especially to examine the relationship between audit fee and audit quality (DeAngelo, 1981; Francis, 2004; Hay and Davis, 2004). Some service providers and companies are more inclined towards employing large audit firms despite the larger audit fees they charge. These clients do so basely on their

confidence that larger audit companies are endowed with greater bonding and monitoring which serves as an advantage to obtain greater audit quality (Hay and Davis, 2004). With regards to specialization and competence of auditors, including continuing education and technical information, larger audit companies hire professionals relative to lower-sized companies. Therefore, higher audit specialization (audit quality) is a result of the size of the audit company leading to higher audit fees (DeAngelo, 1981). The extent of audit planning depends, on the audit fee, thus, the quality of an audit depends on the extent of planning which is assumed to be a function of the audit fee. This assumption is in line with previous research (Hoitash, Markelevich, and Barragato, 2007; Desender Aguilera, Crespi-Cladera and Garcia-Cestona, 2009; Yassin and Nelson 2012; Hamid and Abdullah, 2012; Martinez and Da Jesus Moraes, 2014).

2.3.4 Auditor's Experience

Audit experience is attributed to the duration of providing audit services and the volume of audit assignments performed (Ida Suraida, 2005). More experienced auditors are likely to produce a variety of expectations when clarifying audit findings. Libby and Frederick (1990) and Ida Suraida (2005), Jeffrey (1992), reveal that more experienced exposure leads to more experience stored in memory and which can lead to a better understanding of events. This is very useful in making decisions (Libby and Trotman, 1993) in Guntur, et al (2002) and Ketchand and Strawser (1998) it is posited that when auditors have at least two years of experience, they gain commitment to the performance of organizations, professional attitudes, and audit quality.

2.4 Financial Performance (FP)

To determine how well a firm is doing with the assets in its possession, a financial performance measure is used. It gives a measure of how well the firm has performed in

using its available assets to generate revenue. Financial performance is a phrase usually used to ascertain the total wellbeing of the finances of a firm over some time. Also, financial performance refers to the degree of achievement or realization of financial objectives expressed in financial values (Gathigia, 2015). It is a means of evaluating the results of a firm's policies and operations using monetary terms (Wangithi, Njangiru, and Nungu 2016). Financial performance is very important to management as it is the result of the achievement of an individual or a group of individuals in an entity sharing into the vision of its authority in achieving goals that are legal and comply with morals and ethics. It can however be likened to how well a corporate organization is doing in achieving targets and shareholders' expectations. It requires the measurement of the results of an organization over a specific time, the comparison of the results of several organizations in the same industry or sector in an economy.

Financial statement examination and analysis is what is used to understanding the overall performance of a firm. Financial statements examination and analysis according to Mirza and Javed, (2013) is a process of assessing the linkage that exists amongst components of the financial statements to comprehend better, know the financial performance and position of the firm, and again, how relevant the shares of a firm should be in the market. Financial statements are the principal sources of information and are used to convey a company's financial results to both internal and external stakeholders (Brooks, 2013). They provide information on a firm's financial position at a specific point in time and the outcome of its operations and variations in the financial positions for a specified duration of time (Dawkins, 2015). The significance of satisfactory financial performance of the commercial and the universal banks cannot be blown up because of the essential role that banks play in the economy of the country which to a large extent depends on the stability of the bank's Financial performance is

normally measured using proxies such as; net profit margin, the economics of scale, return on assets, return on equity, return on sales, gross profit margin, and return on investments.

2.5 Empirical Review

In a study to examine the effect of audit quality on financial performance by Sayyar, Basiruddin, Rashid, and Elhabib (2014) in Malaysia using a sample of 542 quoted companies. It was discovered that there exists a considerable and reverse relationship exists between audit fees and return on asset. The rotation of audit firm was also found to significantly and positively related to return on assets even though it was not relevant to firm value. Al Ani and Mohammed (2015) investigated the effects of audit quality on the firm performance in the finance, industrial and service sectors in the Sultanate of Omen. The research analyzed the annual financial reports of 112 companies listed in the Muscat Securities Market for the period between 2009 and 2013. Auditor firm size was used as a substitute for audit quality. The outcome of the research showed that the size of the audit firm positively affects the financial and market performance of the firm.

Amoh (2017) studied the effect of internal audit quality on a firm's financial performance of firms listed on the Nairobi security exchange from the period 2011 to 2016. The research used primary and secondary data. Professional proficiency of auditors, quality of work of auditor's, auditor's independence, and top management support was used as independent variables and financial performance as the dependent variable using return on asset as the proxy. The research used 66 listed firms on the Nairobi Stock Exchange (NSE). Both primary and secondary data were used. Questionnaires were used to collect relevant data and audited published financial

statement of firms listed on the NSE was used to provide data on financial performance. Both the regression analysis and the analysis on variance (ANOVA) were used to analyse data obtained. The research revealed that a strong affirmative connection existed between firms listed on NSE and proficiency of internal auditors, the grade of work of internal auditors, top management support, and independence of the internal auditors. The research further concluded that the quality of work of the internal audit sector has conspicuously and positively affected the financial performance of firms listed on the NSE. The research recommended that to implement audit quality firms listed on NSE should consider skills, personal qualities of audit personnel, and the tutelage given to audit staff as the important factors that determine auditor quality.

Bello, Ahmed, and Yusof, (2017) examined the relationship between audit quality and organization performance with a moderating variable of top management support in the federal universities in Nigeria. Internal audit competence and internal audit independence was the independent variable with organizational performance as the dependent variable. Data was collected with the use of questionnaires and analyzed using both descriptive and inferential statistics. The results after testing the variables of the research showed significant positive relationships except for internal audit independence with organizational performance.

Jusoh, Ahmad, and Omar (2013) conducted a study for the Malaysian economy about firm performance, audit quality, and managerial ownership and the relationship that exists between firm performance and audit quality as well as company performance and managerial ownership. Employing multivariate regression analysis, conducting Chow test, Hausman test, F-test, and resorting to GLS fix effects technique. The inquiry

revealed that a negative significant relationship exists between Return on Assets and Tobin's Q.

The relationship that exists between profitability and audit quality was examined by Joudi (2019) who studied companies listed on Tehran's securities exchange market. Fifty-two accepted companies were sampled for the study. The findings of the study reveal that a weak but positive relationship exists between the audit size and the profitability ratios and the audit tenure period. To survey the audit size, the study employed the strategy of categorizing audit companies as big if they have a large number of employees and have a long history of working as auditors and as small audit companies if they are members of auditing institutions of the formal accountant society. The outcome concludes that a positive non-significant relationship exists between audit size and profitability and a significant positive relationship exists between profitability and tenure period.

Ado, Rashid, Mustapha, and Ademola (2020), employed data from eighty-four companies listed on the Nigerian Stock Exchange. With secondary data spanning nine years from 2020 to 2018 and using a panel data approach, multiple regression was used to examine the relationship between audit quality and financial performance. Financial performance was measured using Return on Assets. The results reveal that if there is a decrease in the amount paid to auditors for audit services, then the financial performance of listed companies in Nigeria will increase. Auditors' size displays a significant positive relationship with ROA. This positive figure implies that with a percentage increase in firms audited by Big4, then the financial performance (ROA) will also increase. Auditor independence is also seen to be positive and statistically

significantly related to the ROA. Finally, auditor independence is found to be more powerful than auditor size on the financial performance

Matoke and Omwenga (2016) examined how financial performance of listed companies in Nairobi Securities Exchange (NSE) are affected by audit quality. They studied how audit size affects financial performance, the effect that the audit teams have on financial performance, the effect that audit independence has on financial performance, and the extent to which audit experience affects financial performance. By the use of a sample of eighty-nine randomly selected respondents and nine listed Kenyan companies, the study subjected the data collected to multiple linear regression analysis. The study concluded that there exists a positive significant relationship between financial performance and audit quality and that when the degree of audit independence increases, the propensity of the company to increase net profit margins also increases. Again, it was discovered that audit size has a positive significant impact on financial performance but not as much as audit independence.

Using a sample of Brazilian public companies for three years (2009 -2011), Martinez and Da Jesus Moraes (2014) investigated the relationship that exists between non-audit services fees and audit fees with Tobin's Q. Their study estimated the relationship between audit remuneration scaled by total assets and Tobin's Q. The results suggest that a significant relationship exists between non-audit and audit fees and Tobin's Q which are negative and positive, respectively. More specifically, the increase in non-audit fees and audit fees respectively decreases and increases Tobin's Q of the company being audited.

A study by Moutinho and Brandao (2012) examine the relationship between audit fees and company performance by using a sample of United States of America non-financial firms that are publicly traded from 2000 to 2008. The study by employing a fixed effect model and standard control variables like sales growth, leverage, size, and the intensity of research and development provided empirical results about the relationship that exists between firm audit fees and company performance. More specifically, the study revealed that decreases in audit fees are associated with increases in operating performance.

Using a time-spanning eight years between 2000 and 2007 and a sample of public companies in the USA, Stanley (2011) hypothesizes a linkage between future reported changes in company economic conditions and observed audit prices. Audit fees were found to be a reflection of ensuing changes in firms' earnings which are not considered by forecasts of analysts. The results show a small level of evidence of the effects of audit fees on future solvency changes which also includes bankruptcy state. Collectively, the results of the study give initial evidence which suggests that disclosure of audit fee is a principal indicator of the dimension of operating performance of the companies' risk of doing business.

This study investigated the impact that audit quality has on the financial performance of companies in Nigeria that produce industrial goods. By utilizing audit fees and audit firm rotation as proxies for audit quality and return on assets as a measure of financial performance. The scope of the study covered the period from 2012 to 2018, a sample of twenty-four companies and employing descriptive and Ex-post facto research designs. The outcome of the study revealed that audit fees and audit firm rotation all

have a positive significant effect on financial performance (Iliemena and Okolocha, 2019).

The study by Mburunga, Walubuka, and Gichana (2019) sought to examine the impact of internal audit independence on the financial performance of banks that are listed on the Nairobi Securities Exchange. The sampled respondents were selected using the Census sampling technique. Using a sample size of seventy-six Internal auditors and audit Managers whose data were subjected analysis, the hypothesis was tested using Chi Square. The outcome of the study was that, when internal audit independence is minimal or limited, it adversely affects financial performance. Specifically, the study identified that when an internal audit budget exists, it improves internal audit independence which affects the financial performance of listed commercial banks.

With the use of both secondary and primary data, Olagunju (2011) examined auditor's independence and the credibility of financial statements. The data employed in the study were subjected to analysis using simple tables and percentages and were subjected to chi-square test. The results of the study revealed that the credibility of financial statements are affected by audit independence and that manipulation of financial reports and statements can be reduced by improvement in the credibility of the financial statements. Studies conclude that when non-audit services are undertaken, it significantly decreases audit independence and financial statement credibility and that there exists a positive relationship between the credibility of financial statements and audit independence implying that to attain credible financial statements, audit independence is fundamental.

2.6 Conceptual Model

The current research focused on elements for measuring financial performance as; net profit margin, return on equity and return on asset as a dependent variable. The model adopted to show the conceptual framework is that of (Matoke and Omwenga, 2016).

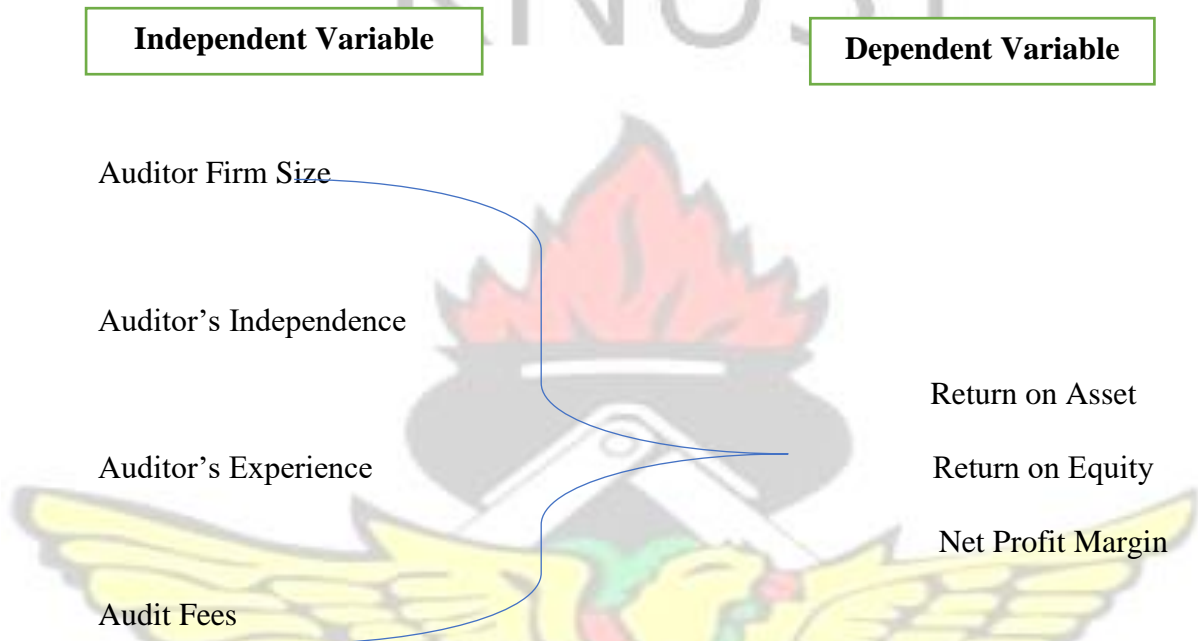


Figure 1. 1 Conceptual Framework

Assessing Profitability requires comparison relative to expenses and costs. That aside, it also requires assessments relative to assets to examine the extent to which assets have been effectively utilized to generate revenue and thereby profits. Usage of “return” in the Return on Assets (ROA) ratio customarily denotes net income or net profit, the total monetary volume of sales earnings when all expenses, costs, and taxes have been taken care of. The ratio that is of utmost importance to equity holders of a company is the Return on Equity (ROE) due to the role it plays in evaluating the tendency to earn a return on their equity investments. Without additional equities, ROE could dramatically increase by benefitting from higher returns with support from a larger asset base. The amount of profits or net income relative to total revenue is what constitutes net profit

margin. For a business or company, the net profit margin equals the proportion of net profits of revenue.

2.7 Conclusion

Extant literature about the effect of audit quality on firm performance was reviewed. A number of proxy measurement for audit quality such as audit tenure, audit fees, client's importance, audit size, audit firm experience, auditor independence, the provision of non-audit services, the audit partner's knowledge of the client's industry, communication between the audit team and client's management among others were recognized. Furthermore, firm performance and measures concepts were all discussed in this study. The next chapter will look at the research methodologies that shall be used in conducting the research.



CHAPTER THREE

METHODOLOGY

3.0 Introduction

This chapter focuses on the method chosen for this study. This section deals with data collection, research design, sampling, analytical methods, and research instruments. The research methodology is described as a way to comprehensively address the research problem (Kothari, 2004). Moreover, the various variables used for the study are defined with their measurement.

3.1 Research Design

Research design is the ordering of conditions for gathering data and evaluation in a way that strives to put together pertinence to the research justification with a cost-cutting measure in a procedure (Kothari, 2004). The study adopted a quantitative research design because this design enables us to test the relationship between audit quality and financial performance of the five (5) selected banks in Ghana. The quantitative approach was selected because the variables used in the study were measured using numerical data from the sampled banks' annual reports. The purpose of the study included describing the state of audit quality and financial performance of the various banks and for that purpose, descriptive research was employed for the first two objectives. To examine the relationship and impact that audit quality has on financial performance, an explanatory research design was employed since it involves an investigation to obtain insight into and understanding the effect audit quality has on financial performance. The study, therefore, employed both explanatory and descriptive research. A panel data time dimension was adopted for the study. The superiority of the panel data stems from its ability to harness the strength of both time series and cross-sectional data for data analysis.

3.2 Population of the Study

Mugenda and Mugenda (2003) consider population as the entire group of events, objects, or individuals that have common attributes that are noticeable and also adjust to a given description. Kombo and Tromp (2006) posit population as the entire class of persons or elements that at least have one thing in common. The population for the study consists of all 24 listed universal and commercial banks in Ghana.

3.3 Sample and Sampling Procedure

The study employed a purposive sampling technique which according to Tongca (2007) is a deliberate sampling or sampling-based on individual judgments. In purposive sampling, the sample is handpicked by the researcher based on the phenomenon of the study, or conditions surrounding the research problem Marlow (2001). Shaughnessy, Zechmeister, and Zechmeister (2000) explained further that based on some characteristics that are common among a group of respondents or likelihood to provide information that is useful for the study, the researcher selects that group as the sample for the study. On the field, the non-probability sampling method will be adopted with emphasis on convenience and purposive sampling. The convenient non-probability sampling will be used to enable the collection of data on any commercial or universal bank conveniently available within the catchment areas while the purposive sampling will be used in obtaining institutional data from a management member of the associated audit firms whose knowledge and experiences are relevant to the objectives of the study. The sample of the study involved only banks that publish their annual reports. Out of this sample, GCB Bank, Fidelity Bank, Standard Chartered Bank Ghana, Ecobank, and Cal bank were selected and considered for the research. According to Mugenda and Mugenda (2003), a representative sample is at least 10% of the

population. The sample size of five out of the population of twenty-four listed banks represents 20% and this figure is more than 10% which indicates the justification of the sample.

3.4 Data Sources and Collection

Secondary data was adopted for the study. These secondary data were extracted from financial reports from these banks that will be regarded as relevant for the study. Secondary data was gathered through analyzing the annual report of the company for five (5) years (2014 to 2018). These data were obtained from the five (5) banks' annual reports.

3.5 Data Analysis

The data was then well surveyed and examined for extensiveness and clarity. With the help of descriptive statistics and the usage of STATA version 14 and Excel 2019, scrutinized data was coded. The outcome from the annual financial reports and other documentation were presented in tables and charts, graphs, and narrative statements. With the help of correlation and multiple regression analysis, and further analyzed to help determine whether there is a relationship between the variables using STATA version 14 data analysis tool.

3.6 Model Formulation

Panel data regression technique was employed by this study in determining the relationship that exists between financial performance and audit quality. Gujarati and Porter (2004), reveal that panel data gives more efficiency and degrees of freedom, more variability of data and informative data, and less collinearity among variables. By

combining time-series and cross-sectional observational data, panel data are more appropriate for examining the dynamic of changes by investigating cross-sectional repeated observations. In terms of detecting and measuring the effects, Panel data are more resourceful relative to pure cross-sectional data or time-series thereby enriching empirical data analysis that may be difficult with cross-sectional data or time series. The Hausman test (Baum, Schaffer, and Stillman 2007) was conducted to determine which model to use for the study. The Hausman test results indicated that the appropriate model to employ for the study is the Random effect (RE). The assumption on which the Random Effect Panel Model is based is that the sample drawn from a larger population and unobserved errors for each of the individual intercepts are part of the composite error.

The general fixed effect model is given as; $y_{it} = \alpha + \beta'X_{it} + \omega_{it}$

where 't' denotes the time dimension and 'i' represents the cross section dimension. 'Y_{it}' represents the dependent variable. 'X_{it}' is a vector of explanatory variables for bank 'i' in time 't', 'α' is constant, 'β' are coefficients which represents the slope of variables and 'ε_{it}' is the error term of individual variable, μ_{it} is the error term for the model. Based on the general model, the study would employ the model:

$$\text{Return on Assets}_{it} = \beta_0 + \beta_1 \text{ Auditor's Firm Size}_{it} + \beta_2 \text{ Auditor's Experience}_{it} + \beta_3 \text{ Auditor's Independence}_{it} + \beta_4 \text{ Audit Fees}_{it} + \varepsilon$$

3.7 Variable Measurement

In this section, the study discusses the various variables that were employed in the study. It explains the dependent and independent variables and how they are derived. It accordingly examines the relationship between audit quality and financial performance of the five (5) selected banks in Ghana. Many variables were used in the study which

are audit fees, audit independence, audit experience, audit size, and financial performance

Audit Fees

Audit fees are the fee amount that auditors receive for the professional services that they provide to companies and individuals. These fees are charged based on factors such as expertise, the complexity of the work they engage in, the risk involved, and the cost structure of the firm (Suryanto,2014), (Agoes,2012). An important factor used in determining audit quality is the audit fees. The choice of qualified auditors is associated with the level of audit fees requested (Hay and Davis, 2004). Audit fees have been employed in some studies as a determinant of the size of the auditing company (Francis, 2004; DeAngelo, 1981; Hay and Davis, 2004). Based on the important role audit fees plays in audit quality, the study employed it as one of the key variables. The study measured audit fees as the amount paid to auditors for their service in Ghana Cedis. It is believed that the higher the audit fees, the more likely it is that auditors can work credibly.

Audit Independence

Audit independence on the other hand has to do with freedom from external influence during the conduct of audit service. According to studies by Hellman (2011), Badara and Saidin (2013) and Al-Matarneh (2011) audit independence has to do with the level of freedom from any kind of behavior of influence, dependence, and control by any member of the audited company. In this study, audit independence was measured as the natural log of the audit fees as was employed by Gerayli, Yanesari, and Ma'atofi (2011).

Audit Experience

Audit experience has to do with auditors' expertise since it plays a role in improving audit quality. By specialization in the industry, auditors receive greater levels of technical information and competence which results from their ability to spot errors in financial statements (Arruñada, 2000). In line with this, the likelihood of auditors spotting errors is improved as a result of industry expert knowledge and thereby increases the chances of reporting on discovered (Hammersley, 2006). Audit experience is measured by the number of assignments and durations handled by the auditing company (Ida Suraida, 2005). This study employed the years of existence of the audit firm as the measure of their experience. This is calculated as the difference between the current year and the year the company came into existence.

Audit Size

Audit size has to do with how large an audit company is which is also based on its reputation. In requesting for audit service, companies usually consider large-firms and this is because of the link between audit size and audit quality (Lindberg and Beck, 2001). Companies and organizations tend to select higher quality auditors to attain outstanding audit results. As a result, they choose to request audit services from large auditing companies. On the other hand, auditing companies that have a higher reputation have a high incentive to provide accurate, objective, and clean audit reports since they have a reputation to protect. Inaccurate and unprofessional results reduce their reputation and hence make them attract less audit fees and fewer clients. This study employed the method by Gerayli, Yanesari, and Ma'atoofi (2011) and gave the score of one (1) to audit firms that are part of the 'big four' and zero (0) otherwise.

Financial Performance

Financial performance can be measured using Return on Assets, Return on equity, and Net profit margin. Return on assets, in summary, is the ratio of net profit or net income and total assets of the company. Net profit or net income is the net revenue after all expenses, taxes, and costs have been deducted. On the other hand, Return on Equity is the earnings that equity holders earn as a result of being part owners (shareholders) of the company. Return on equity measures the ability of equity investors to earn from their investment. Return on Assets is calculated by dividing net income by shareholders' equity. Increases in return on return on assets indicate higher financial performance. For this study, return on assets was employed to measure the financial performance where Return on Assets is measured as net profits divided by total assets. Sayyar, Basiruddin, Rashid, and Elhabib (2014) and Amoh (2017) used return on assets as a measure of financial performance.

3.8 Validity and Reliability of Data

Validity indicates the extent of an empirical measure to replicate the meaning of concepts under study (Babbie, 2013). (Selvam, 2017) reiterates by saying that validity is the confidence that a given outcome shows what it purports to show, that is, its proximity to reality. Reliability is a test of consistency of the results obtained by the use of the meaning instrument. It is the assurance that given empirical results can be replicated. A study is reliable if or when the study is repeated under the same circumstances, with the same population, using the same methods, it yields the same results (Selvam, 2017). To ensure the validity of the secondary data, a period of five years for each of the selected banks were considered. This was to ensure that, data was complete and not subjected to inappropriate error. The method used for analyzing the data which is regression is a widely accepted method that is used by many researchers

to obtain valid results. To ensure validity, the study employed a regression method for examining the effect of the independent variables on the dependent variables. For reliability, the study employed Cronbach (Alpha – α) model to test the reliability of the data. the financial statements for the various bank for the study were taken from the sampled banks ensuring that data is very reliable.

3.9 Profile of the Sampled Banks

This section reveals details of the various banks that were sampled for the study. It discusses their origin and profile.

3.9.1 Ghana Commercial Bank

Ghana Commercial bank which is now GCB bank started as Bank of the Gold Coast in 1953. It was set up for emerging nations, to provide banking services for the attainment of socio-economic development. Special attention was to be given by the bank to farmers, businessmen and women, and Ghanaian traders who were challenged with and eliciting financial support from expatriate banks. When Ghana attained independence in 1957, the bank of Gold Coast was renamed Ghana Commercial Bank to provide commercial banking. The bank was listed on the stock market in 1996 and 2014 was renamed and rebranded to GCB bank Ltd. In 2017, the banks in a bid to have market dominance acquired two local banks namely, UT Bank and Capital Bank. GCB has very wide coverage across all the regions of the country.

3.9.2 Standard Chartered Bank Ghana Limited

As one of the highest-priced stock on the Ghana stock exchange, Standard Chartered Bank Ghana Limited continues to provide banking services in Ghana since it was established in 1896. This makes it the oldest bank in West Africa. Standard Chartered

Bank Ghana Limited is a subsidiary of Standard Chartered Holdings (Africa). About 80% of standard chartered bank Ghana is owned by the globally acclaimed bank Standard chartered. With currently about 27branches, and one thousand employees, the bank operates nationwide.

3.9.3 Fidelity Bank Ghana Limited

As a commercial bank, Fidelity Bank in Ghana is the twenty-second bank to be license by the Central Bank of Ghana after they received Universal Banking License in June 2006. The bank which has its headquarters in the capital city of Ghana is one of the twenty-seven licensed commercial banks in the country. The bank has about one hundred and twenty ATMs and seventy-five branches.

3.9.4 ECOBANK Ghana Ltd.

Ecobank Ghana Limited is a Ghana-based company, which is engaged in retail, corporate and investment banking and other financial services in Ghana. The Company operates as a Trust Bank. Ecobank Transnational Incorporated (ETI) is the Company's parent company.

3.9.5 Cal Bank

In the year 1990, former Cal Merchant Bank and Continental Acceptances Ltd which is now Cal Bank commenced the business of providing first-class financial services Ghanaian banking sector. In the year 2004, Cal Bank started the provision of specialized retail banking services, after receiving a Universal Banking License. As a Universal bank, Cal Bank Limited provides a broad variety of financial solutions to medium-sized and small-scale enterprises, large corporations, retail customers, and public sector institutions via over 100 ATMs and twenty-nine branches across Ghana. These banks were chosen because of their strong financial position in the banking sector as well as their existence for so many years.

CHAPTER FOUR

RESULTS AND DISCUSSIONS

4.0 Introduction

This chapter presents the results of data analysis in line with the objectives of the study. Based on the secondary data collected from the various banking institutions various results were obtained. The results are presented with descriptive statistics and regression. Various tables and figures were used to add value to the statistical analysis.

4.1 Quality of audit of Banks

Audit quality of the banks was examined in terms of the size of the auditing company, the audit independence they had during the audit, the audit fees they received after rendering their audit services, and the experience of the auditors employed.

4.1.1 Audit Size

As a measure of audit quality, the size of the auditors engaged by the banks to provide their services was considered. Within the time frame of 2014 to 2018, the table below gives the breakdown of their engagements with the selected banks. The results reveal that the banks engaged only one of the 'big four' accounting firms for their audits. The 'big four' accounting firms are PricewaterhouseCoopers, KPMG, Deloitte and Touche, and Ernst and young auditing companies. From the results obtained, only Ernst and Young company were not audit service providers for the banks.

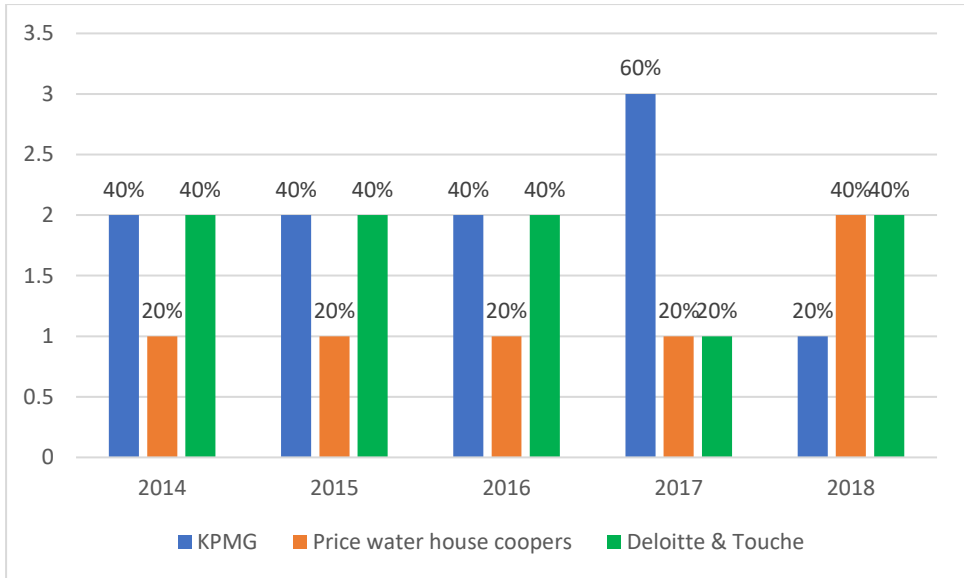


Figure 4.1 Graphical presentation of Banks engagements with Auditing Companies

(Source: Author computation based on Secondary Data, 2020)

Figure 4.1 above reveals that from 2014 to 2018 of all the banks used in the study, 40% engaged KPMG and Deloitte and Touche. In 2017 however, KPMG had the highest engagement from the banks with 60% of such engagement going to them. The Trend changed the following year with KPMG getting the least of 20% of all engagements with the banks for audit purposes. In terms of audit quality based on the Size, all the banks went for the highest-rated auditing companies. This indicates that they are being provided with a very quality audit service.

4.1.2 Audit Fees

Various remunerations are paid to the auditing companies as fees for their service to the banking institutions. Audit fee payments, which indicate the quality of audit service, are presented graphically in Figure 4.2 below.

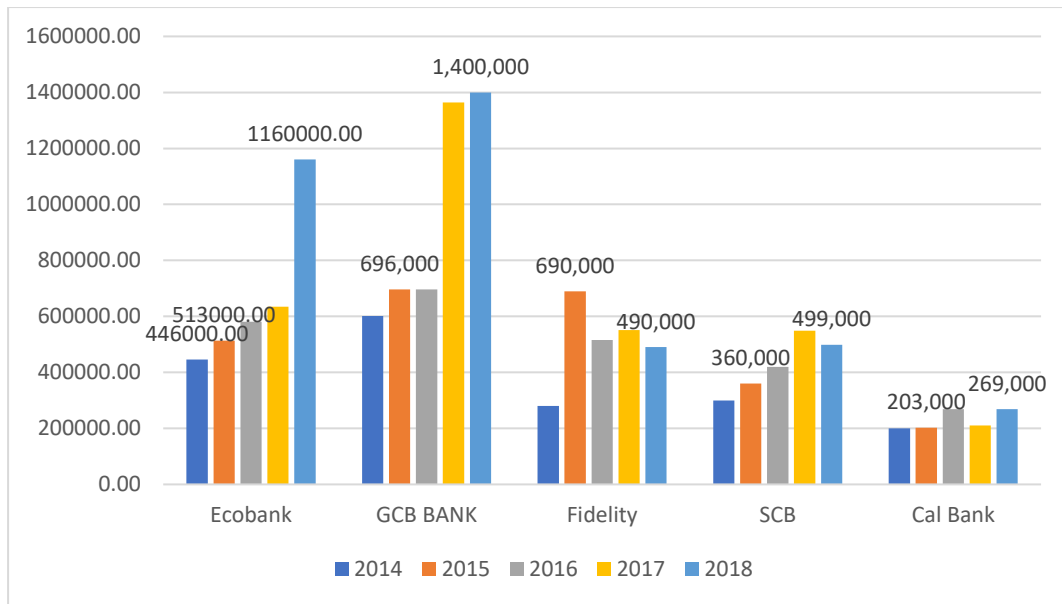


Figure 4. 2 Audit Fees Charged by Auditing Companies

(Source: Author computation based on Secondary Data, 2020)

From the results, The Highest Audit fee paid by any of the banks for audit service is GCB bank with Ghc 1,400,000 and Ghc 1,364,000 in the years 2018 and 2017 respectively. The next bank is Ecobank in the year 2018 with Ghc 1,160,000. The least payment is by Cal bank with 200,000 in 2014. The least payment of Ghc 200,000 as audit fees can be associated with the quality of audit they receive. It can be deduced from this that the banks were subjected to quality audits. The highest being GCB bank is followed by Ecobank Ghana Ltd. Hence using audit fee as an indicator of audit quality, implies that GCB bank benefitted most from audit quality, followed by Ecobank and Fidelity respectively.

4.1.3 Audit Experience

Table 4.1 below displays the number of years of experience of the auditing companies involved. The audit experience is measured by the difference between the current year and the year of establishment. The results show that Deloitte and Touche emerged in

its current form in 1989. KPMG whose full name is Klynveld Peat Marwick Goerdeler was established in 1987 after a merger. PricewaterhouseCoopers in its current form was established in 1998 after the merger between accounting firms; Coopers and Lybrand, and Price Waterhouse.

Table 4.1: Year of Experience of Auditing Firms

Auditing Firm	Number of Years
KPMG	33
Deloitte and Touche	31
Pricewaterhouse Cooper	22

(Source: Author computation based on Secondary Data, 2020)

4.2 Financial Performance

Table 4.2 below provides the descriptive data of the financial performance of the banks measured by the Return on Assets (ROA) which is measured as the ratio of net Income to Total Assets. In the year 2014, GCB bank recorded the highest rate of financial performance with 6.38% while standard chartered recorded the least with 0.01%. Their positions were maintained in the year 2015. Standard chartered recorded the highest in 2016 with 5.13% and maintained the position as leaders till 2018.

Table 4.2: Financial Performance (ROA)

Years	Ecobank (%)	GCB Bank (%)	Fidelity (%)	SCB (%)	Cal Bank (%)
2014	5.46	6.38	2.71	0.01	5.27
2015	4.97	5.29	3.59	1.96	4.94
2016	4.06	4.94	0.35	5.13	0.28
2017	2.81	2.23	1.68	5.94	3.62
2018	3.23	3.04	2.33	3.53	2.83

(Source: Author computation based on Secondary Data, 2020)

Table 4.3: Descriptive Statistics - Financial performance

Variable	N	Max (%)	Min (%)	Average (%)	SD
ROA	25	6.38	0.01	3.46	0.018

(Source: Author computation based on Secondary Data, 2020)

The Table 4.3 above reveals, in summary, the financial performance of all the banks put together. The highest recorded is 6.38% and the least recorded is 0.01%. On average, the rate of financial performance increases by 3.46%. This implies that banks in Ghana have able to attain about 3.46% returns on the total assets they have invested.

4.3 Effect of Audit Quality on Financial Performance

In examining the relationship between audit quality and financial performance, the Size of the audit firm was recorded as 1 if it is any of the ‘big four’ auditing companies and zero for any other. As already stated, this study employed the method by Gerayli, Yanesari, and Ma’atooft (2011) and gave the score of one (1) to audit firms that are part of the ‘big four’ and zero (0) otherwise. Again, Audit independence was calculated as the log of the audit fees paid to the auditing companies. The results were then subjected to correlation tests and regression. The results of the relationship between financial performance and audit quality are displayed in Table 4.4 below.

Table 4. 4: Correlation Matrix

Variables	ROA	Audit Fee	Experience	Audit Independence
ROA	1.0000			
Audit Fee	0.0009	1.0000		
Experience	-0.4058	-0.0645	1.0000	
Audit Independence	0.0500	0.9488	-0.1066	1.0000

(Source: Writer’s Computation, 2020)

The results of the correlation reveal that there is a very negligible positive relationship between Financial Performance (ROA) and Audit fees. A very moderate inverse relationship between Audit Experience and financial performance and a weak positive relationship between Audit Independence and financial performance.

4.4 Specification of Econometric Models

The appropriate regression model to be employed as determined by the Hausman Test. The results of the Hausman test, as displayed in Table 4.4 indicated that the appropriate model to use is the random effect. This is so because results revealed that the Hausman Test Statistic records a test statistic of 0.9733. This value is higher than the 10% significant level. The null hypothesis which states that the appropriate model to employ is the random effect model cannot be rejected. The random-effect model was therefore selected as the appropriate model to employ for regression analysis based on the results of the Hausman test.

Table 4.5: Regression Results

Variables	Model (β)	Standard error	P> t
Audit fees	-3.44e-08	3.44e-08	0.309
Audit Experience	0.017553	0.0007841	0.025
Audit Size	0.041501	0.0009211	0.322
Audit Independence	0.523215	0.0468445	0.264
R ²	0.7122		
Adjusted R ²	0.6817		
Model Sig.	0.0001		
F-test	5.66		
Hausman Test Statistic	0.9733		

4.5 Impact of Audit Quality on financial Performance

Table 4.5 above is the results of the regression to examine the impact of audit quality on financial performance using a 5% significant level. The results revealed that the audit fee does not significantly affect financial performance as indicated by $\beta = -3.44e-08$ [p-value = 0.309 > 0.05]. This means that an increase in audit fees would not lead to a decrease or increase in financial performance. The results reveal that audit experience significantly affect financial performance with $\beta = 0.017553$ [p-value = < 0.05]. This implies that an increase in audit experience by one unit would increase financial performance by 0.0176 units. The results revealed that the audit size does not significantly affect financial performance as indicated by $\beta = -0.041501$ [p-value = 0.322 > 0.05]. This means that an increase in audit size would not lead to a decrease or increase in financial performance. Audit independence was found not to significantly affect financial performance by $\beta = 0.523215$ [p-value = 0.264 > 0.100] such that if audit independence increases or decreases by one-unit, financial performance would not be affected.

4.6 Discussion of Results

This section presents a discussion of the study. The discussion was done based on the objectives of the study which included establishing the relationship that exists between audit quality and financial performance as well as the effect audit quality has on financial performance. The study revealed that a negligible positive relationship exists between Financial Performance (ROA) and Audit fees which was confirmed with a correlation analysis conducted. The finding also gives the implication that changes in audit fees would not affect financial performance. Audit fees which are believed to help auditors perform credibly when increased, according to this study, would not have any effect on financial performance. This result is contrary to that of Ado, Rashid,

Mustapha, and Ademola (2020) who studied the impact of audit quality on the financial performance of listed companies in Nigeria using a sample of eighty-four listed companies in Nigeria and concluded that when audit fees paid to auditors are reduced, it increases financial performance.

Stanley (2011) Moutinho *et al.* (2012) and Martinez and Da Jesus Moraes, 2014 (2014) in their studies revealed that audit service spending significantly influences firm performance. Martinez and Da Jesus Moraes, 2014 (2014) who distinguished between non-audit fees and audit fees in relation to the value of a firm concluded that higher spending on audit service leads to higher per market value of total asset of the company. Which is in contrast with that of Stanley (2011) whose study outcome proof that there is a negative relationship between unexplained audit fees and performance of operations. In Moutinho *et al.* (2012) study, where they employed a sample of 600 listed companies, they discovered an inverse relationship between audit service spending and financial performance as this study also proves.

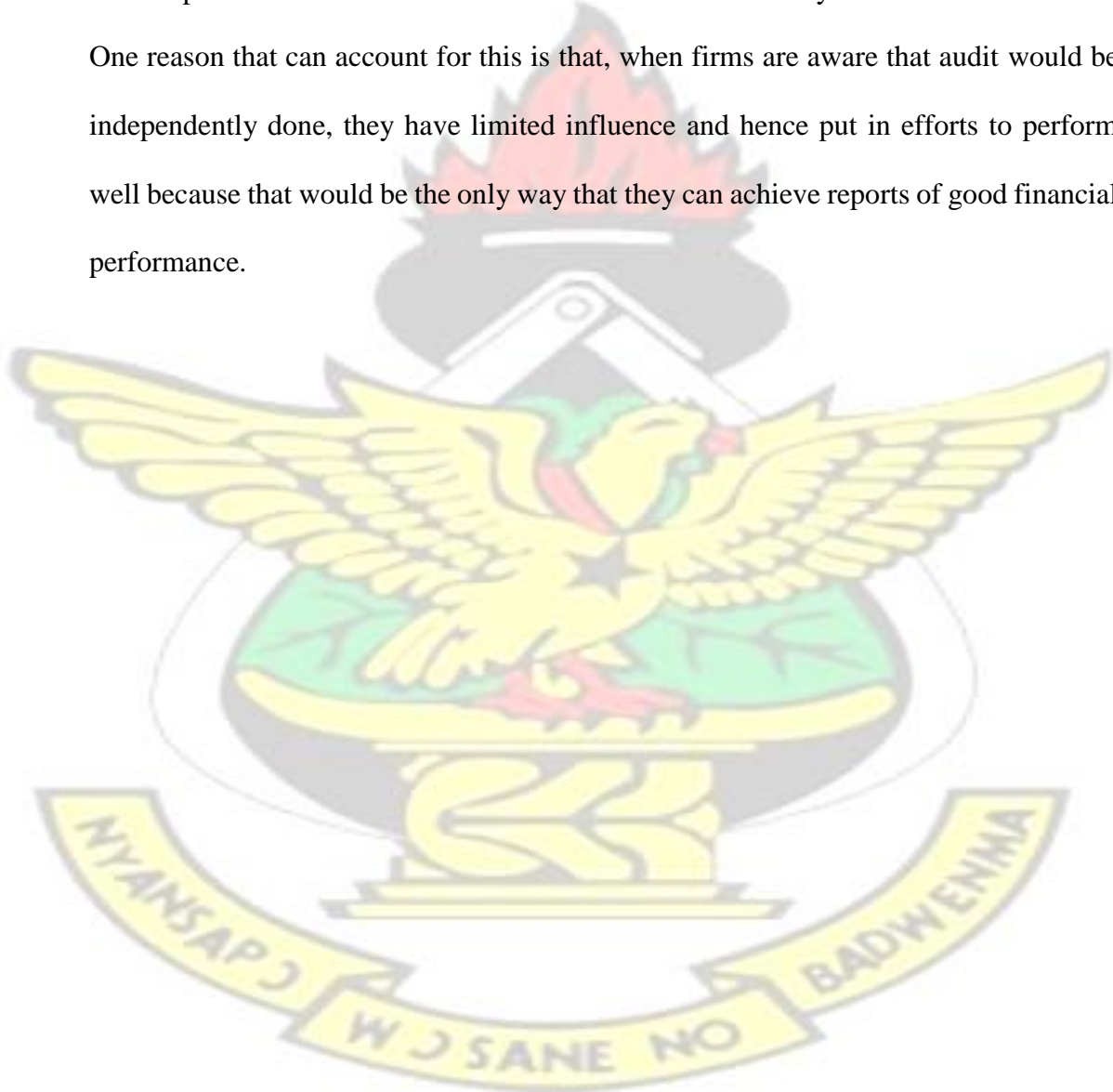
On the other hand, some studies reveal that audit fees have a positive significant effect on financial performance. An examination by Woodland and Reynolds (2003) about the association between financial statement analysis and indirect measures of audit quality using multivariate regression analysis revealed that audit fees are positively associated with financial statements. Again, Iliemena and Okolocha (2019) in their study revealed that audit fees have a significant positive effect on return on asset which is in contrast with the outcome of this study. From the above, the relationship between the audit fees and financial performance has not been consistent in a number of studies which indicates that they could be dependent on other external factors. Audit fees when higher can be said to influence the independence of auditors to provide reports that

would be in line with the interest of business managers and owners, which in most cases is good financial performance. However, the outcome of this study indicates otherwise indicating that audit fees cannot be said to influence financial performance. This result is in line with the Agency Theory (Eisenhardt, K.M.,1989) in which the principals, who in this case are the shareholders and board of directors, are seeking to attain higher financial performance by paying more audit fees do not have, doing that, granting them higher financial performance as a result.

An explanation that can be given for the relationship between audit fees and financial performance is that Audit fees reduce profit margins and hence return on assets. This tends to reduce financial performance when return on asset is used as a measure of financial performance. This however cannot be applicable in all cases since in some studies, there exist positive relationships between financial performance and audit quality. With such scenarios, it can be said that either other external factors influence the effect audit fees have on financial performance or that there is a limit to which audit fee payments should not go beyond because it would contribute to reductions in financial performance. The same audit fees which could help obtain more stakeholder interest and efforts in the company and therefore financial performance can at another instance lead to a reduction in the profit margins when audit fee payments are extremely higher.

A weak positive relationship was found to exist between Audit Independence and financial performance. The study reveals that audit independence does not significantly affect financial performance. By implication, when audit independence increases or decreases, it would not affect financial performance. This result is not in line with the study by Mburunga, Walubuka, and Gichana (2019) about financial performance and

Internal Audit Independence of Listed Banks at the Nairobi Securities Exchange. The research concluded that financial performance is negatively influenced by limited or minimal internal audit independence of listed banks. Again, a study by Olagunju (2011) on the impact of auditor's independence on the credibility of financial statements in Nigeria confirms this. A positive relationship was discovered to exist between the independence of an auditor and the credibility of a financial statement. Indicating that the independence of an auditor is fundamental to the credibility of a financial statement. One reason that can account for this is that, when firms are aware that audit would be independently done, they have limited influence and hence put in efforts to perform well because that would be the only way that they can achieve reports of good financial performance.



CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.0 Introduction

In this chapter, summaries of the main findings of the study are presented. It discusses the outcome of the study from which various recommendations were made based on the results. How the objectives were attained is also discussed in this chapter. Various recommendations were also made including that for future studies.

5.1 Summary of Findings

With regards to examining the audit quality of the sampled banks, the study examined four measurements of audit quality which were audit fees, audit experience, audit independence, and audit size. The study attained its objective of analyzing these measurements by presenting their results and explanations.

5.1.1 Examination of Audit Quality Banks

The study revealed that audit quality in terms of audit size had all the banks sampled using either PricewaterhouseCoopers, KPMG or Deloitte and Touche. All these auditing companies are part of the 'big four' accounting firms. This indicates that all the banks went for the highest-rated auditing companies for their external audit service, implying that they were provided with very quality audit service. In terms of audit quality based on audit fees for services provided by auditing companies, the study reveals that the least amount paid was Ghc 200,000 in the year 2014 and the maximum of GHc 1,400,000 in 2018. The amount paid is very substantial for audit service and indicates the high audit quality provided. Over the years, the audit fees did not reduce

but rather rose higher. Again, the study reveals that audit experience as a measure of audit quality had the Banks consulting very experienced auditing companies who have more than twenty years of experience. The least of them being twenty-two years and the maximum being thirty-three years. It can be deduced from this that the banks were subjected to high audit quality. Furthermore, the study reveals that only the highest-profile accounting companies were engaged in auditing the banks used for the study. These companies have risen over the years as to top brand names in the auditing industry. In their independent audit reports attached to the financial statements of the bank, they reveal that their services were rendered independently. Audit independence as indicated in the audit reports of the banks shows that audit quality based on audit independence was provided.

5.1.2 Examination of Financial Performance of Banks

Again the study also attained its objective of examining the financial performance of the listed companies by using their returns on assets. The returns on assets were all calculated from the net incomes and total assets of each of the banks used in the study. The outcome was presented in diagrams with notes. Again, the results of the study reveal that in terms of the rate of financial performance the least attained by any of the banks is 0.01% and the highest recorded is 6.38%. On average, the rate of financial performance by the banks increases by 3.46%. Positive rates of financial performance results for all the banks indicate that none of the banks had reductions in their financial performance but rather performed better than their previous years

5.1.3 Relationship between Audit Quality and financial performance

The study revealed that financial performance has a negligible positive relationship with Audit fees, a moderate inverse relationship with audit experience, and a weak positive relationship with Audit independence. Additionally, it was found that audit fees had no significant effect on financial performance likewise audit independence. Audit Experience was, however, found to have a positive significant effect on financial performance.

5.2 Conclusion

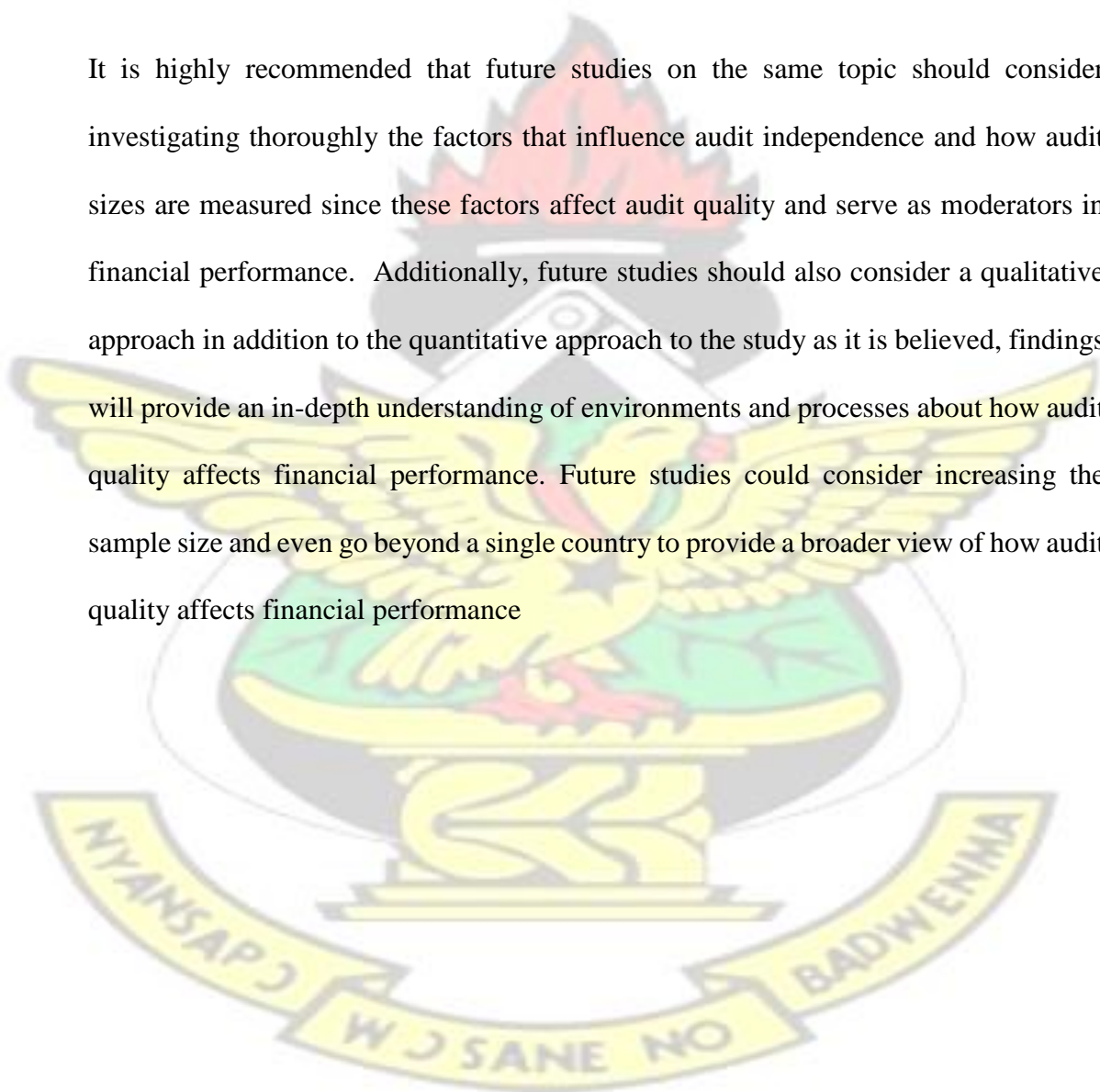
Based on the outcomes and findings of the study, it can be concluded that generally, several factors contribute to financial performance. Additionally, another conclusion is that there is no significant effect of audit fees and audit independence on financial performance giving the implication that the presence and increase in audit fees are not likely to cause a reduction or increase in financial performance. Finally, it can be concluded that there is a positive effect of audit experience on financial performance which by implication means that to increase financial performance, audit experience must increase.

5.3 Recommendations

Based on the findings and conclusion of the study, the following recommendations are made. First and foremost, there is a need for institutions especially in the banking sector to pay closer attention to audit experience and put in measures to engage auditing firms that have more experience.

Also, there is the need to be circumspect of how much audit fees are paid to auditing firms for their services. Since it would not, according to this study, lead to an increase in financial performance. Moreover, directors and decision makers in the financial institution need to consider audit quality as a financial performance strategy especially audit experience, and put them in their policy measures to improve on financial performance.

It is highly recommended that future studies on the same topic should consider investigating thoroughly the factors that influence audit independence and how audit sizes are measured since these factors affect audit quality and serve as moderators in financial performance. Additionally, future studies should also consider a qualitative approach in addition to the quantitative approach to the study as it is believed, findings will provide an in-depth understanding of environments and processes about how audit quality affects financial performance. Future studies could consider increasing the sample size and even go beyond a single country to provide a broader view of how audit quality affects financial performance



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