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**KNUST SCHOOL OF BUSINESS**

**DEPARTMENT OF ACCOUNTING AND FINANCE**

**TOPIC:**

# EXAMINING THE IMPACT OF EXTERNAL AUDITORS ON FIRM VALUE: EVIDENCE OF LISTED FIRM ON GHANA STOCK EXCHANGE

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## DECLARATION

I hereby declare that this submission is entirely my work under the supervision of Dr. Kwadwo Appiagyei, and that to the best of my knowledge, it contains no material previously published or written by another person nor material which to a substantial extent has been accepted for the award of any other degree or diploma at Kwame Nkrumah University of Science and Technology, Kumasi or any other educational institution, except where due acknowledgment is made in the thesis.

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## DEDICATION

This thesis work is dedicated to the Almighty God for his guidance and blessings. A special dedication to my late father Mr Williams Kwabena Anane, and my colleagues for the constant encouragement and support given to me during the hard times.

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## ABSTRACT

The primary aim of this study is to investigate the relationship between external auditors and firm value among firms listed on the Ghana Stock Exchange. The study proxied external auditors with audit firm and audit fees while firm value proxied by Tobin's Q. The control variables in the study are firm size, firm age, and industry type. A quantitative research approach was used to examine the effect of external auditors on firm value among firms listed on the Ghana Stock Exchange. The study focuses on the effect of external auditors on firm value and control for other firm-specific factors such as size, age, and industry sector. Secondary data was gathered from these listed firms from 2010 to 2021 based on the availability of data. The study performed Hausman test which chose the fixed effect model as the appropriate model over the random effect model. Thus, the study adopted the fixed effect model to help achieve the objectives of the study. The study used a dynamic model to account for heteroscedasticity, endogeneity, serial correlation, and the propensity of firm value to endure over time, using the generalized methods of moments (GMM) estimator. After testing the hypotheses of the study, the researcher found a statistically significant negative relationship between audit fees and the value of listed firms on the Ghana stock exchange. However, it revealed a significant positive relationship between the choice of audit firm and the value of the listed firm. This confirms other previous studies that analyses the nexus of audit firm and the value of listed firms on the Ghana Stock Exchange. The researcher suggested that further studies should incorporate how audit quality affects the link between audit fees and firm value.

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## CHAPTER ONE

## INTRODUCTION

### 1.1 Background of the study

In the contemporary landscape of corporate governance and financial reporting, the role of external auditors has garnered increasing attention from both scholars and practitioners (Mahdi Sahi et al., 2022). As businesses operate in an environment marked by complex transactions, heightened regulatory scrutiny, and growing stakeholder expectations, the quality and credibility of financial information have become paramount (Rossi and Harjoto,2020). Jarah et al. (2022) claimed that the assurance provided by external auditors plays a pivotal role in maintaining the integrity and credibility of financial reporting. However, investors, creditors, and other stakeholders heavily rely on audited financial statements to make informed decisions about allocating their resources (Olayinka, 2022). As a result, the relationship between external auditors and firm value has garnered significant attention.

The concept of "firm value" encompasses a firm's overall financial health, stability, and attractiveness to investors and potential partners (Mousa, 2021). According to Rossi and Harjoto (2020), firm value, also known as the enterprise value or corporate value, is a financial metric that represents the overall worth of a business entity. Agyemang-Mintah and Schadewitz (2018) claimed that firm value reflects the total value of a company, taking into account various factors and assets, and is a key indicator of how the market perceives the company's financial health, performance, and future prospects. According to Jihadi et al. (2021), firm value is typically measured in monetary terms. It represents the aggregated market perception of a firm's current and future cash flows, risk profile, and growth potential. While numerous factors influence firm value, the presence of external auditors is of particular interest due to their role in enhancing transparency, reducing information asymmetry, and mitigating agency problems within organizations (Li and Wang, 2022). However, one crucial mechanism that plays a pivotal role in ensuring financial transparency and reliability is the external audit process.

According to Alharasis (2023), external auditors, often considered as independent third-party watchdogs, are entrusted with the responsibility of assessing and verifying the accuracy and fairness of a firm's financial statements. Their objective is to provide an unbiased and objective opinion on whether these financial statements fairly present the financial position, performance, and cash flows of the entity (Roszkowska, 2021). In fulfilling this mandate, Manita et al. (2020) stated that external auditors play an integral role in reducing information asymmetry between managers and external stakeholders, enhancing the confidence of investors, creditors, and other market participants in the reported financial information.

External auditors have a crucial responsibility in verifying the reliability and precision of financial statements, a matter of great significance for investors, creditors, and various interested parties (He et al., 2017). Given the role of external auditors in improving accounting records dependability, it is logical to wonder if their presence affects the value of enterprises listed on the GSE. According to Al-ahdal and Hashim (2022), external auditors possess an important role in assuring the validity and authenticity of financial statements, resulting in can boost the reliability of the financial data provided by a business. This, in addition, may enhance investor trust and boost business value. Al-ahdal and Hashim (2022) discovered that the main assumption of the auditing process is to assure the correctness and dependability of financial accounts. The procedure for verification fosters confidence between stakeholders, decreases the perceived risk of investment, and, as a result, impacts business value (Saputra and Yusuf, 2019). Alzeban (2020) argue that, whenever external auditors give credible reassurance that a business's financial statements accurately represent its financial condition and performance, investors tend to be more willing to lend money to such firm, resulting in a rise in its intrinsic value.

Furthermore, the existence of external auditors might strengthen management' accountability to shareholders (Qader and Cek, 2023). Management might feel less inclined to participate in financial misconduct or theft once they are aware that their financial statements will be exposed to external audits. This, in turn, can boost shareholders' faith in the business's management, favourably affecting firm value (Fang et al., 2018). The link that exists between external auditors and firm value remains not always clear and is likely to be impacted by a variety of circumstances, including the company's size and level of complexity, the regulatory framework, and the sector within which the company works (Hasan et al., 2022). Nonetheless, Agyei-Mensah (2018) "contends that the existence of external auditors is relevant to corporate value. Agyei-Mensah and Yeboah (2019) discovered that the presence of an external auditor had a positive correlation with the market value of enterprises listed on the GSE. In a similar vein, Glover-Akpey and Azembila (2016) discovered that the existence of external auditors had a positive relationship with the market value of banks. Moreover, the inclusion of external auditors has the potential to boost business value by improving the credibility and reliability of financial reporting, boosting openness, decreasing information asymmetry, and lowering agency costs" (Kantudu and Alhassan, 2022).

However, considering the GSE's significance as an avenue for enterprises to acquire funds as well as boost their exposure, the relevance of external auditors in increasing the value of firms listed on the GSE ought to be emphasized. As a result, investors, managers, legislators, and scholars have to comprehend the impact of external auditors on corporate value. Hence, this study strives to give significant insights that can drive decision-making, modifications to regulatory and CG standards, eventually improving the long-term sustainability and stability of the financial sector by throwing light on the complicated processes. Therefore, the purpose of this study is to look into the impact of external auditors on firm value among firms listed on the Ghana Stock Exchange.

## 1.2 Problem Statement

The Ghana Stock Exchange (GSE) is an essential venue for businesses to obtain funds and gain recognition. However, the high standards of financial reporting and CG in Ghana has been an issue, raising concerns regarding the financial statements' dependability and accuracy (Mbir et al., 2020). CG and financial reporting quality have been a source of worry in the Ghanaian economy, making the function of external auditors even more essential (Agyei-Mensah and Yeboah, 2019; Asante-Darko et al., 2018). As a result, the reliability and accuracy of the financial statement are crucial for investors, creditors, and other stakeholders generating well-informed choices regarding an organization (Asante-Darko et al., 2018).

According to Jarah et al. (2022), "external auditors, play an important role in improving the credibility and dependability of financial reporting, which can increase corporate value. Fang et al. (2018) suggested that top-notch external auditors play an essential function in CG by acting as both binding and regulating techniques to reduce management misuse of business resources. Lee and Park (2016) found out that external auditors employ the services of internal auditors alongside accountancy and legal expertise to increase audit efficiency. In addition, Argento et al. (2018) highlighted the quandary that external auditors confront in their collaborative work with internal auditors, as well as the balance/imbalance in their perspectives on improved efficiency, independence, professionalism, and audit quality".

Santosa et al. (2022) examined the association between external auditors and firm value, but the findings have been inconsistent. Gim et al. (2023) suggested that the presence of external auditors increases firm value due to greater transparency and reduced information asymmetry. Qader and Cek (2023) argued that external auditors help uncover misstatements, promote accurate financial reporting, and enhance investor confidence. Consequently, higher firm value is expected when external auditors are present. Conversely, other studies argue that the effect of external auditors on firm value may be limited. Almaqoushi and Powell (2021) posits that the incremental value provided by external audits may not justify the associated costs, particularly for firms with well-established internal control systems. Gal and Akisik (2020) suggests that the market may already incorporate the benefits of strong internal controls, rendering external audits redundant in certain cases. Consequently, the presence of external auditors may not significantly affect firm value.

Furthermore, Rahman et al. (2019) discovered that audit committee size and external audit quality (BIG4) are both considerably positively linked with business performance. Chen et al. (2017) also discovered a favourable relationship between external audit fees and internal audit remuneration depending on firm performance. However, despite the mandatory requirement for external audits in many countries, the impact of external auditors on firm value remains a topic of debate. While external audits are intended to enhance financial reporting quality and reliability, it is unclear whether they truly contribute to the overall value of a firm. Therefore, this study intends to examine how audit fees and audit firm affects firm value, by investigating the relationship between external auditors and firm value, this research aims to provide insights into the true value added by external audits and help regulators and investors make informed decisions regarding audit requirements and investment strategies.

It can therefore be seen from the above studies that there are inconsistent findings with regards to the relationship between external auditors and the value of firms indicating that there is a knowledge gap that needs to be investigated further. There is the need to do further studies in this area to establish the real nexus between external auditors and firm value, hence the primary purpose of this research.

### 1.3 Objectives of the Study

The main purpose of the study is to investigate the effect of external Auditors on Firm Value among firms listed on the Ghana Stock Exchange.

#### 1.3.1 Specific Objectives

1. To evaluate the effect of audit fees on the firm value of listed companies on the Ghana Stock Exchange.
2. To investigate the effect of audit firm on the firm value of listed companies on the Ghana Stock Exchange.

### 1.4 Research Questions

1. What is the effect of audit fees on the firm value of listed companies on the Ghana Stock Exchange?
2. What is the effect of the audit firm on the firm value of listed companies on the Ghana Stock Exchange?

### 1.5 Scope of the Study

Conceptually, this study examined how effect of external auditors (audit fees and audit firm) drives firm value among firms listed on the Ghana stock exchange. However, the theoretical underpinning of the study will be built on the agency theory to describe how these components interact with one another. Geographically, the scope of this study includes firms listed on the Ghana Stock Exchange.

### 1.6 Significance of the Study

The study on the impact of external auditors on firm value has major consequences for a variety of stakeholders, notably legislators, regulators, and investors. However, assessing the link between external auditors and firm value is important for the following reasons. Firstly, this study will give significant insights for policymakers and regulators by analysing the relationship between external auditors and firm value. Furthermore, the findings will assist these organizations in determining the efficiency of existing audit procedures and standards.

Suppose it is discovered that the presence of external auditors considerably increases business value, officials will consider tightening audit legislation to ensure that all companies satisfy mandated auditing criteria. Furthermore, the involvement of external auditors is intended to improve the quality and transparency of financial reporting. Also, the study will increase investors' trust in the accuracy and dependability of financial accounts. Furthermore, investors will rely on external audits as a critical tool for assessing investment prospects and making educated judgments.

In addition, considering the influence of external auditors on firm value will also give information on the efficacy of CG initiatives. If external audits are determined to have a positive effect on firm value, it implies that better CG practices, such as obligatory external audits, will help to greater financial performance and value generation. Furthermore, the findings of this study will motivate corporations to hire external auditors voluntarily, even if law does not require it. External audits have the ability to boost firm value, which will push organizations to emphasize transparent and accurate financial reporting processes, assisting either the firm or its stakeholders. Lastly, the findings will contribute to regulatory reforms, enhance investors' confidence, improve corporate governance practices, guide investment strategies, and promote transparent and accurate financial reporting.

**1.7 Methodology**

A quantitative research approach was used to examine the effect of external auditors on firm value among firms listed on the Ghana Stock Exchange. The study focuses on the effect of external auditors on firm value and control for other firm-specific factors such as size, age, and industry sector. The explanatory research design was chosen to investigate the relationship between external auditors and firm value. Secondary data were used from the annual financial reports of ten purposively selected firms with available data from 2010 to 2021. The study employed partial frontier approaches to eliminate outliers and excluded firms with missing data for any of the variables of interest. The study analysed the de-consolidated data at the firm level and removed firms with less than ten consecutive annual observations. The fixed effect model was used to analyse panel data to investigate how external auditors affect the firm value of Ghanaian-listed firms. A dynamic model was also used to account for heteroscedasticity, endogeneity, serial correlation, and the propensity of firm value to endure over time, using the generalized methods of moments (GMM) estimator developed by Arellano and Bond (1991).

### 1.8 The Organization of the Study

The introductory chapter of this thesis encompasses five sections, namely the background, problem statement, objectives, hypotheses, as well as the significance, scope, and limitations of the study The literature is reviewed theoretically and empirically in Chapter 2. Chapter Two also includes a summary, a research gap, and a conceptual framework that are pertinent to the study in addition to the literature. The third chapter lists the variables used in the study as well as the data source, instrument, sampling, and method of data analysis. Based on information gathered from secondary and primary sources, the study's findings and discussions are presented in the fourth chapter. In the fourth chapter of this study, the outcomes of descriptive statistics, correlation analysis, and regression analysis are also discussed. In the fifth chapter, you can locate the concluding remarks and suggestions derived from the study's discoveries.

# CHAPTER TWO

# LITERATURE REVIEW

## 2.0 Introduction

The study investigates the effect of external Auditors on Firm Value among the firms listed. The study is divided into five (5) parts which include the conceptual review, the theoretical review, the empirical findings from various literature, the conceptual framework and lastly summary of the chapter.

## 2.1 Conceptual review

The definitions, operationalization, and application of the variables in this research are included in the conceptual review section. External Auditors, Audit fees, Audit firm and Firm value are the elements under this division.

### 2.1.1 External Auditors

External auditors are independent experts or businesses that organisations pay to analyse and evaluate their financial statements, internal controls, and accounting practices (Ghamri, 2020). Their major responsibility is to offer an impartial and objective assessment on the organization's financial (Manita et al., 2020) information's correctness, completeness, and fairness. External auditors must preserve their independence and impartiality in their job. To maintain objectivity, they should have no financial or personal interests in the organisation they are auditing (Al-ahdal and Hashim, 2022). External auditors are often hired by organisations on a yearly basis to undertake a financial audit. The audit engagement is formalised by an engagement letter that describes the scope of the audit, the auditors' and the organization's duties, and the anticipated deliverables. The primary duty of external auditors involves the assessment of the company's financial documents, encompassing the balance sheet, income statement, cash flow statement, and associated notes (Alzeban, 2020). They review these statements to see whether they have been produced in conformity with applicable accounting rules and are free of substantial errors. External auditors evaluate the efficacy of the organization's internal controls, including financial reporting systems and procedures (Holt and Loraas, 2019). This assessment aids in identifying flaws or gaps in internal control systems that might lead to financial mistakes or fraud. External auditors may do compliance audits in addition to financial audits to verify that the organisation complies with certain legal and regulatory requirements, industry standards, or contractual commitments (Li et al., 2019). Auditors use a variety of audit processes, such as substantive testing, analytical procedures, and control tests, to acquire evidence and assess the dependability of financial information. They may also conduct risk assessment methods to uncover possible areas of risk or fraud. External auditors offer an audit opinion at the end of the audit. This opinion can be unqualified (indicating that the financial statements are fairly presented), qualified (highlighting specific issues), adverse (when there are significant material misstatements), or disclaimer of opinion (when auditors are unable to express an opinion due to insufficient evidence) (Fadilah et al., 2019). An audit report is issued by external auditors that summarises their findings, conclusions, and audit opinion. This report is usually included in the organization's yearly financial statements and sent to stakeholders such as shareholders, regulators, and investors (Tuan Mansor et al., 2020). External auditors are bound by an auditing body's or regulatory authority's code of conduct and professional standards. These criteria protect auditors' honesty, objectivity, and competence in their job. Auditors must participate in continual professional development to keep up with changes in accounting rules, auditing methodology, and industry best practices (Soyemi et al., 2019). External auditors play a critical role in improving financial reporting transparency, accountability, and trust. Their independent evaluations assist stakeholders in making informed choices, protecting against fraud and financial misrepresentation, and ensuring organisations comply with relevant laws and regulations (Muñoz-Izquierdo et al., 2019).

### 2.1.2 Why the Need for An External Audit?

External audits are necessary for a variety of reasons, all of which contribute to the overarching objective of guaranteeing the truth, openness, and integrity of an organization's financial statements and operations (Ghamri, 2020). An external audit's principal function is to give an impartial and objective examination of a company's financial statements. External auditors are not employees of the organisation; they are neutral third-party specialists (Iriyadi, 2019). This independence is critical in ensuring that the company's financial information is trustworthy and correct. External audits help to ensure corporate financial accountability. They guarantee that financial transactions are accurately recorded, assets and liabilities are fairly represented, and financial statements are prepared in compliance with accepted accounting principles and regulations (Dzikrullah et al., 2020). The trust of stakeholders, including as shareholders, investors, lenders, and regulatory authorities, must be maintained at all costs. In order to detect fraud, errors, and discrepancies in financial documentation, external auditors get special training. Their examination could spot financial misdeeds that would otherwise go unnoticed, such embezzlement or financial statement manipulation (Alqudah et al., 2019). Detecting and correcting such problems is critical for avoiding financial mismanagement and protecting a company's image. External audits are often mandated by law or regulatory agencies. These audits guarantee that organisations follow certain accounting standards and regulatory obligations that differ depending on jurisdiction (Dimitrijevic et al., 2021). Noncompliance may result in legal consequences, fines, or other regulatory measures. External audits increase investor trust. Investors are more inclined to believe information offered when they know that an independent party has examined and verified a company's financial accounts. This enhanced trust may attract investments and improve a company's access to financial markets (Manita et al., 2020). By holding management responsible to shareholders and the board of directors, external audits help to promote corporate governance. They give insight into a company's financial health, risk management practises, and internal controls, assisting in the identification of opportunities for improvement and the development of governance processes (Eulerich et al., 2022). Many lenders, creditors, and suppliers depend on external audit reports to determine a company's creditworthiness. A favourable audit opinion may help organisations get loans, negotiate favourable credit conditions, and maintain strong relationships with creditors. External audits are critical in due diligence procedures in mergers, acquisitions, and corporate transactions (Nekhili et al., 2020). Potential purchasers or investors often seek access to audit reports in order to assess the target company's financial health and dangers. Finally, the necessity for an external audit is multidimensional and serves the interests of a variety of stakeholders, including shareholders, investors, regulators, creditors, and the larger business community. External audits help to openness, accountability, and confidence in financial reporting by offering an unbiased examination of an organization's financial statements and activities, eventually benefitting both the organisation and its stakeholders (Manita et al., 2020).

### 2.1.3 Audit fees

Audit fees are the fees charged by a CPA firm or an external auditing firm for performing an independent audit of a company's financial statements and internal controls (Barua et al., 2020). These costs are normally paid by the firm being audited and are an important aspect of maintaining financial openness, accuracy, and accountability. Audit fees are paid to guarantee that a company's financial statements are accurate and reliable (Agyei-Mensah and Yeboah, 2019). They aid with assuring stakeholders such as investors, creditors, and regulatory authorities that the company's financial information is reliable. The breadth of the audit influences the audit charge. The scale and complexity of the firm's activities, the number of locations and subsidiaries, the volume of transactions, and the sector in which the company works are all factors to consider (Luh and Kusi, 2023). Audits involving complicated financial instruments or multinational enterprises may need greater costs. Audit fees are heavily influenced by the audit firm's reputation and expertise. Because of their knowledge and trustworthiness, larger, well-established organisations with a track record of performing high-quality audits tend to demand greater prices. Regulatory regulations might also have an impact on audit fees (Nyeadi, 2023). Auditing and reporting standards for publicly listed firms are tougher, which may result in increased costs owing to the extra effort needed. Audit fees are also determined by the auditor's evaluation of the client's risks. If the auditor believes there is a larger risk of significant misrepresentation in the financial statements, they may request extra audit procedures, which may result in a fee increase (Kartika, 2021). The amount of time and effort necessary to perform the audit is an important consideration in setting audit rates. Auditors must collect and analyse financial data, conduct testing, assess internal controls, and provide reports, all of which need professional time and skill (Azmi et al., 2021). Audit companies may sometimes provide services other than financial statement auditing, such as tax counselling, forensic accounting, or IT auditing. These extra services have their own cost systems. Companies may negotiate audit costs with the audit firm in certain situations, particularly for long-term contracts (Janardhanan and Uma, 2020). Negotiations may result in more favourable price arrangements, but businesses must ensure that audit quality remains a priority. Audit fees and their link to audit quality have come under growing criticism in recent years (Jaradat et al., 2021). Audit costs must be fair, and there must be no conflicts of interest that might jeopardise audit independence, according to regulators and stakeholders. As part of their proxy statements, public businesses are obliged to disclose audit fees in their annual financial statements. This openness assists stakeholders in determining the cost of auditing services (Horvey and Ankamah, 2020). In conclusion, audit fees are critical for preserving the integrity of financial reporting and ensuring that businesses follow accounting rules and laws (Abugri, 2022). They vary depending on a number of criteria, including the audit's complexity, the audit firm's reputation, regulatory requirements, and the client's degree of risk. These considerations should be carefully considered by businesses when hiring an audit company and negotiating audit rates (El-Deeb et al., 2022).

### 2.1.4 Audit firm

A certified public accounting (CPA) business, commonly known as an auditing firm, is a professional services organisation that specialises in delivering impartial and objective audits of financial statements and other financial information (Dodo, 2020). These companies serve an important role in assuring the accuracy, dependability, and openness of financial reporting for enterprises, organisations, and governments. An audit firm's principal role is to do financial audits (Garcia-Blandon et al., 2020). Examining a client's financial statements, records, and internal controls to see whether they are presented fairly and properly in conformity with applicable accounting standards and regulatory requirements. Based on their findings, audit firms give audit opinions indicating whether the financial statements are free of serious misstatements. Audit firms are supposed to ensure impartiality and independence in their work (Gerged and Agwili, 2020). This implies they should have no financial or personal interests in the customers they audit, since independence is critical to guaranteeing the audit process's integrity. Audit companies may conduct a variety of audits. Financial Statement Audits examine a company's financial statements to determine their correctness and conformity with accounting rules (Ghamri, 2020). Internal audit services are provided by certain audit companies to assist organisations in improving their internal controls, risk management, and operational efficiency. Compliance audits determine if a company is in accordance with certain laws, rules, or contractual obligations. Forensic audits are performed by audit companies to examine fraud, financial malfeasance, or abnormalities inside an organisation. Audit businesses are regulated by appropriate agencies, such as the Public Company Accounting Oversight Board (PCAOB) in the United States (Harris and Williams, 2020). These authorities establish guidelines and criteria to assure the quality and professionalism of audit services. Audit companies may range in size from tiny local businesses to massive international corporations. They may provide services other than audits, such as tax consulting, advice services, and management consulting. Some audit companies focus on specialised areas, such as healthcare, technology, finance, or manufacturing (Horvey and Ankamah, 2020). Industry specialisation permits them to better comprehend the industry's specific difficulties and laws. Audit businesses employ certified public accountants (CPAs) and other accounting and auditing specialists. Audit teams are usually comprised of auditors, senior auditors, managers, and partners that collaborate to execute audit engagements (Jaradat et al., 2021). To retain their credibility and reputation, audit companies must adhere to ethical norms. They must follow a tight code of ethics and professional behaviour, which includes secrecy and honesty. Audit companies are entrusted with sensitive financial information, and they are legally required to keep their customers' data and audit conclusions secret (Kartika, 2021). Audit companies use stringent quality control methods to verify the accuracy and consistency of their audit services. Peer reviews and quality control reviews aid in the maintenance of audit quality. Following the completion of an audit, the firm provides an audit report in which the findings and views about the client's financial statements are communicated. This report is an important part of ensuring financial openness and accountability (Luh and Kusi, 2023). In conclusion, audit companies are critical organisations that offer independent and impartial examinations of financial information, which contributes to the dependability and credibility of financial reporting. To assure the accuracy and integrity of their audit services, they operate within a system of regulatory monitoring, ethical standards, and quality control procedures (Manita et al., 2020).

### 2.1.5 Firm value

Firm value, also known as intrinsic value or total value of a corporation, indicates an organization's worth as evaluated by several criteria. It is a basic idea in finance and investment analysis (Duh et al., 2020). Firm value is a company's entire worth, which includes both physical and intangible assets, as well as future cash flows and profit potential. It is the sum of money that an investor or acquirer would be prepared to pay for the complete company (Harris and Williams, 2020). Strong financial performance, such as revenue growth, profitability, and cash flow production, may boost a company's worth. Intangible assets like as patents, trademarks, and brand reputation, as well as physical assets such as real estate, equipment, and inventory, contribute to business value (Lai, 2019). External variables such as market demand, competition, economic circumstances, and interest rates may all have an impact on the value of a company. By making strategic choices and driving development, competent and successful management teams may increase the value of a firm (Shan et al., 2019). The expectation of future profits and cash flows drives business value significantly. Discounted cash flow (DCF) analysis is often used by investors to assess the present value of projected future cash flows. Risk and uncertainty may reduce the value of a company. On riskier assets, investors often want a greater rate of return, which affects the present value of future cash flows (Garcia-Blandon et al., 2020). Firm value may be influenced by industry-specific characteristics and market trends. Companies in booming sectors may be valued more than those in decreasing industries. The manner in which a business is funded, especially its debt-to-equity ratio, may have an impact on its value. Excessive debt may raise financial risks and reduce corporate value (Garcia-Blandon et al., 2020). Market Valuation is a sort of valuation in which the market value of a company's publicly traded shares (market capitalization) is examined. It reflects the collective view of investors on the company's worth. Income valuation is a form of appraisal that entails Methods such as discounted cash flow (DCF) analysis determine a company's worth by discounting future cash flows to their present value. Asset valuation determines the fair market worth of a company's tangible and intangible assets, less liabilities (Harber and Maroun, 2020). Analysts may evaluate a company's worth compared to its peers by comparing its financial data to those of comparable publicly listed firms. Transaction valuation is a kind of assessment that takes into account the prices paid for comparable firms in recent mergers and acquisitions. Shareholder value is inextricably linked to firm value (Ernstberger et al., 2020). The basic purpose of management and shareholders is to maximise corporate value. A company's actions, such as investment choices, capital allocation, and dividend policy, may have an impact on its potential to produce value for shareholders. To make investment choices, investors, including shareholders and possible purchasers, evaluate corporate value (Beck et al., 2019). The stock price of a firm is often a reflection of its perceived worth in the eyes of investors. Understanding company value is critical for strategic decisions like mergers and acquisitions, divestitures, and capital raising. It assists in analysing if a deal is financially advantageous. In summary, firm value indicates a company's entire worth and is impacted by a variety of internal and external variables. For investors, managers, and stakeholders, accurate valuation is crucial because it drives investment choices and strategic planning (Andiola et al., 2020).

## 2.2 Theoretical framework

This section examines the study's ideas, which include the Agency Theory.

### 2.2.1 Agency theory

Agency Theory is a key concept in corporate finance and organisational management that investigates the interactions and conflicts of interest between an organization's principals (often shareholders or owners) and agents (generally managers or executives) (Luh and Kusi, 2023). It contends that these conflicts develop because of a misalignment of objectives and incentives between principals seeking to maximise their wealth and agents who may pursue their own interests (Horvey and Ankamah, 2020). The necessity for methods and contracts to align the interests of both parties, decrease agency costs, and guarantee that agents behave in the best interests of the principals, eventually affecting decision-making, corporate governance, and organisational success, is emphasised by Agency Theory (Jaradat et al., 2021). Agency Theory is a fundamental idea in corporate finance and governance, and it is critical to comprehending the link between external audits and company value in the context of "The Effect of External Audit on Firm Value." At its foundation, Agency Theory investigates the conflicts of interest that develop between an organization's principals (shareholders) and agents (managers) (Kum et al., 2021). According to this idea, a mismatch of objectives and incentives between these two groups may lead to agency difficulties, in which agents prioritise their own interests above those of the principals. Agency Theory is especially useful in the context of external audits because it explains how external audits may be used to alleviate agency concerns (Azmi et al., 2021). External audits entail the evaluation of a company's financial statements, internal controls, and financial reporting systems by independent third-party specialists. This external examination adds accountability and openness to the process, minimising knowledge asymmetry between shareholders and management (Dodo, 2020). External audits help to align the interests of both parties since managers are less likely to engage in opportunistic behaviour or financial manipulation when they know their activities are being examined objectively. Agency Theory is closely tied to the influence of external audits on corporate value (Kartika, 2021). External audits are often shown to have a favourable link with business value in empirical investigations. The Agency Theory lens may be used to understand this connection. Shareholders have more trust in the quality and dependability of financial information when external audits are in place. This greater openness minimises the likelihood of agency conflicts and mismanagement, giving the company a more appealing investment prospect (Yusheng and Anyigbah, 2019). As a consequence, investors may be ready to pay a premium for shares of businesses with strong external audit systems, resulting in higher company values. Agency Theory offers a solid framework for understanding how external audits affect business value by resolving agency issues and increasing openness and accountability. It emphasises the crucial role of external audits in aligning shareholders' and managers' interests and eliminating information asymmetry, eventually fostering improved corporate governance and perhaps enhancing business value (Doku, et al., 2023). Utilizing Agency Theory to assess how external audits affect a company's value can provide valuable insights into the interactions between corporate governance and financial performance. The relevance of Agency Theory in the context of "The Effect of External Audit on Firm Value" lies in its ability to furnish a theoretical structure for comprehending and explaining the underlying mechanisms (Rahmani Noorozabad et al., 2021). At its core, Agency Theory centers on the conflicts of interest that arise between principals (shareholders) and agents (managers), underscoring the importance of external audits in mitigating these conflicts. External audits serve as a technique for minimising information asymmetry and increasing openness, addressing agency issues inside organisations directly (Aljaaidi, 2023). External audits are critical to enhancing investor trust and possibly increasing business value by matching the interests of shareholders and management via greater accountability, emphasising the usefulness of Agency Theory as a guiding paradigm in this research (Manita et al., 2020).

## 2.3 Empirical review

The literature on previous research on the study's aim was reviewed. This covers research on the The Effect of External Auditors on Firm Value with evidence from the Ghana Stock Exchange.

### 2.3.1 Audit fees on the firm value

Wijaya (2020) analysed the link between audit fees and business value in their literature review, emphasising the favourable effect of increased audit fees on increasing investor confidence and lowering information asymmetry. Khaoula and Moez (2019) explored the influence of audit fees on business value by taking the role of auditor reputation into account. Higher audit fees paid to reputed auditors, according to their results, positively affect business value because they show a commitment to high-quality financial reporting. In the context of corporate governance, Hung et al. (2019) explores the relationship between audit fees and business value. According to the research, organisations with better governance systems are ready to spend higher audit fees, which leads to greater company value. This implies that good corporate governance practises improve the perceived quality of financial reporting, attracting investors and increasing business value. contribute further literature. Velte (2022) investigated the association between financial reporting quality and business success in a similar vein. Their results show that organisations with higher quality financial reporting do better financially, emphasising the need of accurate and trustworthy financial information for investors and stakeholders. Chen and Li (2020) also investigate the function of external auditors in improving financial reporting quality. According to their findings, robust auditing systems and independent monitoring lead to greater financial transparency and trust. This implies that the presence of external auditors might establish trust in financial accounts, attracting more investors and perhaps leading to improved financial performance. Furthermore, Gerged and Agwili (2020) discovered that organisations with greater financial reporting quality had lower cost of capital because investors consider them to be less risky and more trustworthy. This means that accurate financial reporting not only improves a company's financial performance, but also provides long-term advantages such as lower financing costs and easier access to capital markets. Furthermore, according to Widiatmoko (2020), precise financial reporting enables improved decision-making inside the organisation. Management can identify areas for improvement, distribute resources efficiently, and make educated strategic choices with dependable and transparent financial information. This may result in enhanced operational efficiency, cost savings, and, eventually, profitability. In conclusion, accurate financial reporting is vital not only for satisfying legal obligations and winning the confidence of stakeholders, but it also plays a significant role in achieving financial success and long-term development for businesses.

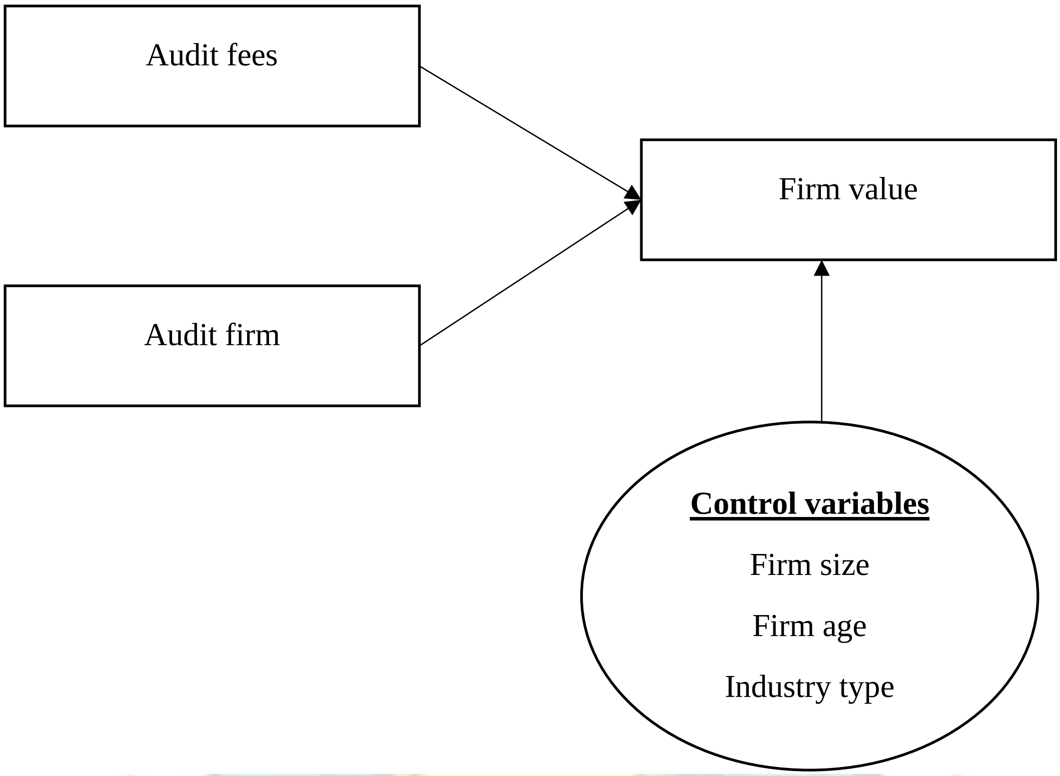
### 2.3.2 Audit firm on the firm value

In an extensive literature review conducted by Wijaya (2020), various empirical studies were examined to explore the impact of audit firms on the value of businesses. The findings revealed a positive association between the reputation and expertise of audit firms and the overall value of the companies in question. Khaoula and Moez (2019) conducted a review of the literature on audit firm size and its influence on business value, concluding "larger audit firms tend to enhance firm value due to their greater resources and credibility. Gerged and Agwili (2020) (2019) performed a systematic study to examine the association between audit firm independence and firm value and found that a greater degree of audit firm independence is positively connected with company value. According to Widiatmoko (2020), independent auditors may give fair evaluations, which leads to enhanced investor trust and better corporate value. Velte (2022) investigated the association between audit firm independence and company performance in their research. Their results corroborated prior study, which found that corporations audited by independent organisations had superior profitability and stock returns. This suggests that having an independent auditor might boost a business' overall financial performance and investor attractiveness. Additionally, Hung et al. (2019) found that businesses audited by reliable and independent audit companies had a higher chance of attracting potential investors and obtaining finance. According to Kusuma and Nuswantara (2021), having independent auditors on staff is also associated with stronger corporate governance procedures. They said that independent auditors provide organisational transparency and accountability by acting as a check on management's actions. Additionally, Haj-Salem et al. (2020) looked at the impact of audit firm independence on the accuracy of financial reporting. They found that businesses with independent audits were more likely to have accurate and reliable financial statements, which raised investor confidence and trust in the business. This is because independent auditors are more likely to evaluate the company's financial health objectively and impartially since they are less susceptible to management's biases and conflicts of interest. Furthermore, independent auditors are expected to follow tight auditing rules and laws, which further assures the financial statements' correctness and credibility. Overall, the presence of independent auditors enhances the credibility of a company's financial reporting and helps to improve corporate governance practises. Overall, these studies show that audit firms have a considerable impact on business value, emphasising the need of choosing credible and independent auditors for organisations looking to maximize their worth.

**2.4 Conceptual framework**

The framework is examined through the lens of agency theory in order to acquire a better understanding of the impact that external auditors have on the value of a business, notably in terms of audit fees and audit firm. Agency theory primarily focuses on addressing the inherent conflicts of interest that arise between principals (shareholders) and agents (managers), aiming to facilitate the resolution of these conflicts. In the context of this study, audit fees and the frequency of audit committee meetings are considered as variables that operate independently, while firm value is the dependent variable. Additionally, the study takes into account control factors such as company size, firm age, and industry type.

*Figure 1: Conceptual Framework*




**Source: Author's Construct (2023)**

**2.5 Hypothesis development**

This section focuses on the three basic theories presented in Figure 2.1 above. As evidenced by the study methodology, sections have been prepared and discussed for each of the hypotheses

**2.5.1 Audit fees, Audit firm and firm value**

Firm value, often known as market value of a business, indicates a company's entire worth or valuation in financial markets. It represents investors', shareholders', and the market's collective appraisal of a company's assets, operations, growth prospects, financial performance, and future cash flows. The link between audit fees, audit firm selection, and business value is complex and complicated. Audit fees are the costs paid by a business in order to receive external assurance on its financial statements, and this expense may have an impact on firm value. The choice of an audit company, whether a prominent "Big Four" firm or a regional/local one, may have an influence on both the fees paid and the perceived quality of the audit. An audit company is a kind of specialised professional services organisation that offers customers with independent audit and assurance services. These businesses are often made up of certified public accountants (CPAs) and other auditing specialists that have the knowledge and experience to analyse an organization's financial statements and internal controls. Audit fees are the fees paid to an external audit company by an organisation (the client) for performing an audit of the organization's financial statements and associated procedures. To begin, the audit company selected might have an impact on audit fees. Due to their reputation, considerable resources, and worldwide reach, the Big Four companies often demand more rates than smaller, regional audit firms. Higher audit costs may seem to be an extra expense burden for a firm at first, but they may communicate legitimacy and certainty to investors and stakeholders. The idea that a business hires a trustworthy audit firm may boost investor confidence, attracting additional investment and favourably increasing firm value. Second, the quality and rigour of the audit performed by the selected company may have a substantial impact on business value. Audits of high quality may discover financial irregularities or misstatements, therefore promoting transparent and trustworthy financial reporting. This, in turn, may increase investor and shareholder confidence in the veracity of the company's financial accounts, thus increasing firm value. A low-quality audit, on the other hand, that fails to discover substantial misstatements or is insufficiently comprehensive, may undermine confidence and possibly lead to reduced business value. In conclusion, the link between audit fees, audit firm selection, and business value is intertwined. While increased audit fees from renowned audit firms may raise expenses initially, they may improve the reputation of dependability and transparency, thereby attracting investment and favourably increasing corporate value. Furthermore, the quality of the audit performed by the selected company is critical, as it may either strengthen trust in financial reporting, so adding to business value, or detract from it if the audit fails to find financial irregularities or misstatements. Therefore, an audit fee should have a negative correlation with a firm value. Hence it was hypothesised that:

***H1: Audit fee has a negative influence on firm value***

### 2.5.2 Audit firm on Firm value

Firm value, often known as market value of a business, indicates a company's entire worth or valuation in financial markets (Janardhanan and Uma, 2020). It represents investors', shareholders', and the market's collective appraisal of a company's assets, operations, growth prospects, financial performance, and future cash flows. The link between audit firm selection and business value is complicated and substantial (Jaradat et al., 2021). Audit firms are often chosen by companies based on their reputation, knowledge, and ability to perform comprehensive and accurate audits. The selection of a trustworthy audit company may have a number of effects on corporate value. An audit company is a specialised professional services organisation comprised of CPAs and other auditing experts (Horvey and Ankamah, 2020). These businesses provide customers, who are often organisations, government agencies, or individuals, independent audit and assurance services. Furthermore, the audit company chosen might affect the impression of audit quality. Audit companies with a good reputation are expected to adhere to strict auditing standards and practises, which may result in more comprehensive and effective audits (Azmi et al., 2021). A high-quality audit may detect any errors, anomalies, or misstatements in financial accounts, lowering the risk of financial fraud or erroneous reporting. This guarantee of trustworthy financial information helps to reduce investor uncertainty and risk, which may boost firm value by increasing faith in the company's financial performance (Janardhanan and Uma, 2020). However, it is crucial to highlight that, although the choice of audit company might have an impact on business value, it is not the only one. The actual quality and efficacy of the audit process as carried out by the selected company are critical. If an audit company, regardless of repute, fails to detect serious errors or misstatements, it may undermine investor confidence and reduce corporate value (Jaradat et al., 2021). As a result, the link between audit firm and firm value is dependent on the auditors' expertise, thoroughness, and independence throughout the audit process.

***H2: Audit firm have a positive effect on firm value.***

### 2.6 Summary

The research explores on the impact of external auditors on company value in enterprises listed on the Ghana Stock Exchange. The basic theory was agency theory. Previous research has looked at the influence of external auditors on business value in the setting of the Ghana Stock Exchange while adjusting for other firm-specific characteristics. The research attempts to add to the literature by investigating the possible causes of the conflicting findings obtained in previous studies and giving more strong data on the association between external auditors and business value in Ghana.

# CHAPTER THREE

# METHODOLOGY

## 3.1 Introduction

The techniques and procedures that are used to complete the study's objectives are discussed in this chapter. More details about the study's design, including its data type and source, methodology, and its model formulation, are all provided in this chapter. Also included were details about the variables used in the study and the results of any diagnostic tests conducted on the research model used.

## 3.2 Research Design

The term "research design" pertains to the processes, techniques, and tools employed by a researcher to carry out an investigation, as stated by Coffie et al. (2018). It is crucial to select an appropriate research design that aligns with the study's subject matter and intended methods. In this study, a quantitative research approach was utilized to examine the effect of external auditors on firm value among firms listed on the Ghana Stock Exchange. Specifically, the study aims to evaluate the impact of audit fees and audit committee meetings on the firm value of listed companies on the exchange. To achieve this objective, an explanatory research design was employed, which allows for an in-depth investigation of the relationship between causes and effects in study variables. Yang et al. (2018) noted that this research design is suitable for examining the effect of external auditors on the firm value of listed firms. In this study, the explanatory design was deemed appropriate for investigating the relationship between external auditors and firm value.

## 3.3 Data and Source

In this study, the nature of the research warrants the use of secondary data to test the proposed hypotheses. The justification for this selection is the need to collect second-hand information on the relationship between **external Auditors and Firm Value among firms listed on**

**Ghana Stock Exchange**. The secondary data were obtained from the annual financial reports of the selected firms. To ensure data quality, the study employed partial frontier approaches to identify and eliminate outliers. Lastly, any firms in Ghana with missing data for any of the variables of interest were excluded from the study sample.

### 3.4 Sample and Population

The primary aim of this study is to investigate the impact of external auditors on firm value among listed firms in Ghana. Given data availability, only firms with available data from 2010 to 2021 were considered for inclusion in the study. Due to limitations in resources and time, a purposive sample of ten firms was chosen. Purposive sampling, also known as judgmental sampling, was employed to select the sample for the study. This sampling technique is based on the extent to which the units that make up the target population meet the criteria of providing easy access to the relevant data (Jefferis et al., 2020; Coffie et al., 2018). Using the collected data, the study analysed the de-consolidated data at the firm level (see Asante-Darko et al., 2018) and removed firms with less than ten consecutive annual observations. The study sourced all the required variables from the financial reports of selected firms in Ghana. For the analysis, a panel data approach was used, with a data pool spanning the years 2010 to 2021.

### 3.5 Methods of Estimation

The study analysed how **external Auditors** affect the **firm value** of Ghanaian-listed firms. Using standard methods of estimation, such as fixed effect and random effect regression models, the researcher analysed panel data in line with the existing literature (Wijaya and Yustina, 2019; Agyei-Mensah and Yeboah, 2019; Asante-Darko et al., 2018). The fixed effect model was used because it performed best in the Hausman test. From the model, the two objectives stated in chapter one is analysed using:

$$Tobin's\ Q_{it} = \beta_0 + \beta_1 AF_{it} + \beta_2 AM_{it} + \sum_{c=1}^{3} \beta_3 CONTROL_{it} + \varepsilon_{it} \quad (3.1)$$

Where $Tobin's\ Q_{it}$ $is\ company\ market\ value\ to\ its\ replacement\ cost\ of\ firm\ i$ over the period t, $AF_{it}$ is the audit fees of firms $i$ over the period t, $AM_{it}$ is the audit meeting of firms $i$ over the period t. Also, $CONTROL_{it}$ is the control variable thus firm size, firm age, and industry type of firms $i$ over the period t, and $\varepsilon_{it}$ is the error term in the model.

However, the researchers used a dynamic model to give test robustness and to account for heteroscedasticity, endogeneity, serial correlation, and the propensity of firm value to endure over time, all in line with Berger et al. (2000), Dietrich and Wanzenried (2011), and Luo et al. (2016). When conducting their study, the team relied on the efficient and consistent generalized methods of moments (GMM) estimator developed by Arellano and Bond (1991). For linear regression. The dynamic model of Eqn (3.1) can be expressed as follows:

$$Tobin's\ Q_{it} = \beta_0 + \beta_1 Tobin's\ Q_{it_{it-1}} + \beta_2 AF_{it} + \beta_3 AM_{it} + \sum_{c=1}^{3} \beta_4 CONTROL_{it} + \varepsilon_{it} \quad (3.2)$$

**3.6 Diagnostic test**

To tackle endogeneity concerns in the field of financial management research, the researcher utilized the two-step system estimator approach introduced by Arellano and Bover (1995) as well as Blundell and Bond (2000). This method entails the inclusion of a lagged dependent variable into the explanatory variable. Additionally, the researcher generated instruments for endogenous variables using the two-step system GMM. Specifically, the study utilized the past values of all potentially endogenous variables as instruments for treating them, as suggested by Kosmidou (2012). To assess the trustworthiness of employing several lags as a tool, the Hansen/Sargan test was carried out as per Malik's study in 2011. Additionally, the research applied AR (1) and AR (2) to gauge the presence of first and second-order serial correlation. While AR (1) residuals may be correlated, AR (2) residuals should not be correlated at all, as noted by Phan et al. (2020).

Also, multicollinearity occurs when the independent variables, in this instance the variables relating to risk management indicators, are strongly interrelated; their presence may have a deleterious influence on the regression findings (Shad et al., 2019). The research utilized a variance inflation factor (VIF) test to assess whether multicollinearity existed within the regression model. The VIF helps in gauging to what extent the variance of a regression coefficient is inflated due to the presence of multicollinearity in the model. The VIF was calculated using R. As a general rule, a value of one indicates that the variable is uncorrelated; values between one and five indicate that the variable is moderately correlated, and values larger than five indicate that the variable is substantially correlated (Phan et al., 2020). The larger the VIF number, the less credible the regression findings. Generally, a VIF higher than 10 implies a high degree of connectivity and should raise red flags.

One of the fundamental assumptions that underpin the use of a panel regression model is that the variables are uncorrelated. Nevertheless, there are situations when variables are correlated sequentially, which is referred to as "serial correlation (Shad et al., 2019). Although the regression estimates derived using the ordinary least square model are still unbiased, they are inefficient owing to the serial correlation between variables. Durbin Waston Testing was performed to assess the presence of serial correlation in the model. The Durbin-Watson statistic is a quantitative measure of autocorrelation in regression residuals from statistical models (Gado, 2015; Kosmidou, 2012). Durbin-Watson statistics are always in the range of zero to four. A score of two shows that the sample is uncorrelated, while values near zero indicate positive autocorrelation and values near four imply negative autocorrelation.

*Table 3.1: Variable Description*

| Variables | Operationalization | Literature source |
|---|---|---|
| | **Dependent variable** | |
| **Tobin's Q** | Q = (Market Value of Equity + Liabilities) / Total Assets | Coffie et al. (2018) |
| | **Independent Variables** | |
| **Audit fees** | Audit fees represent the complete sum disbursed by a company to its external auditor for the auditing services rendered over the course of a fiscal year. | |
| **Audit firm** | Dummy variable that is 1 if big 4, 0 if therwise | Coffie et al. (2018) |
| | **Control Variables** | Coffie et al. (2018) |
| **Firm Size** | "Natural log of the total assets" | |
| **Firm age** | The age of the firm | |
| **Industry Type** | Dummy, 1 if the firm is in the financial sector and 0 otherwise | Coffie et al. (2018) |

**Source: Authors Compilation (2023)**

### 3.7 Chapter Summary

The objective of the research was to investigate how external auditors influence the value of companies listed on the Ghana Stock Exchange. The researchers used a quantitative explanatory research design and secondary data from the annual financial reports of ten selected firms with available data from 2010 to 2021. They used partial frontier approaches to eliminate outliers and excluded firms with missing data or less than ten consecutive annual observations. The fixed effect model was used to analyse panel data, and a dynamic model was also used to account for heteroscedasticity, endogeneity, serial correlation, and the propensity of firm value to endure over time, using the generalized methods of moments (GMM) estimator developed by Arellano and Bond (1991).

# CHAPTER FOUR

# RESULTS AND DISCUSSION

## 4.1 Introduction

This chapter focuses on presenting and explaining the results obtained from the analysis conducted in the research. The following outcome comprises variable descriptions, correlation, and panel regression model estimations, specifically random effect and GMM. This is followed by an interpretation and discussion of the results with existing literature and theories

***Table 4.1: Descriptive Statistics***

| Variable | Mean | Max | Min | Std. Dev | Observation |
|---|---|---|---|---|---|
| Tobin's Q | 3.547 | 171.643 | 0.033 | 15.847 | 120 |
| AF | 16.394 | 49.260 | 1.649 | 11.703 | 120 |
| FS | 16.813 | 26.503 | 0.000 | 8.262 | 120 |
| FA | 52.000 | 115.000 | 25.000 | 21.853 | 120 |
| IT | 0.500 | 1.000 | 0.000 | 0.502 | 120 |

Source: Author Computation (2023): *Where Tobin's Q is the market value, AF is Audit fees, , FS is Firm Size, FA is firm age, and IT is an industry type*

The table provides descriptive statistics for six variables: Tobin's Q, AF, ACM, FS, FA, and IT. Tobin's Q represents the market value of a company and has a mean of 3.547. The maximum value observed is 171.643, indicating the presence of companies with significantly higher market values. Conversely, the minimum value is 0.033, suggesting the existence of companies with very low market values. The standard deviation of 15.847 implies that there is considerable variation in Tobin's Q across the sample of 120 observations. The variable AF represents audit fees and has a mean value of 16.394. The maximum audit fee observed is 49.260, while the minimum is 1.649. The standard deviation of 11.703 suggests some variation in audit fees across the sample.

FS represents Firm Size and has a mean value of 16.813. The maximum firm size observed is 26.503, while the minimum is 0.000. The standard deviation of 8.262 indicates that there is considerable variation in firm sizes across the sample. FA stands for firm age and has a mean value of 52.000. The maximum firm age observed is 115.000, while the minimum is 25.000. The standard deviation of 21.853 suggests some variation in firm ages across the sample. Lastly, IT represents industry type and has a mean value of 0.500. This variable takes binary values (0 or 1), with 0 representing one industry type and 1 representing another. The maximum value of 1.000 indicates the presence of companies belonging to the second industry type, while the minimum value of 0.000 suggests the presence of companies belonging to the first industry type.

***Table 4.2: Correlation Matrix***

| S/N | Variable | 1 | 2 | 3 | 4 | 5 | 6 |
|---|---|---|---|---|---|---|---|
| 1 | Tobin's Q | 1 | | | | | |
| 2 | AF | -0.104 | 1 | | | | |
| 3 | ADF | -0.005 | -0.016 | 1 | | | |
| 4 | FS | 0.034 | 0.052 | -0.029 | 1 | | |
| 5 | FA | -0.121 | -0.021 | -0.086 | 0.248** | 1 | |
| 6 | IT | 0.076 | 0.150 | 0.047 | 0.642*** | 0.381*** | 1 |

Source: Author Computation (2023): *Where Tobin's Q is the market value, AF is Audit fees,* ADF *is Audit firm, FS is Firm Size, FA is firm age, and IT is an industry type*

The table presents a correlation matrix that showcases the relationships between the variables included in the analysis. The correlation coefficient, which ranges from -1 to 1, is used to assess relationships between variables. Values near -1 indicate a strong negative correlation, values close to 1 signify a strong positive correlation, and values near 0 suggest a lack of a substantial correlation. In the case of Tobin's Q, it demonstrates a weak positive correlation (0.034) with firm size (FS), indicating a slight link between the market value and firm size. However, this correlation is not robust enough to draw definitive conclusions. On the other hand, the variable Audit Fees (AF) exhibits a weak negative correlation (-0.104) with Tobin's Q, implying a potential minor negative association between audit fees and the company's market value, although this correlation lacks significance. Audit firm show a negligible correlation with Tobin's Q (-0.005), implying no meaningful relationship between the two variables. Similarly, firm size (FS) demonstrates a weak positive correlation (0.052) with Tobin's Q, suggesting a slight positive association. Firm age (FA) displays a relatively stronger negative correlation with Tobin's Q (-0.121), implying that older firms tend to have lower market values. It's crucial to emphasize that the correlation coefficient doesn't establish causation, and there could be other factors at play influencing this relationship. Lastly, industry type (IT) demonstrates a positive correlation with Tobin's Q (0.076), suggesting a weak positive association. This indicates that companies belonging to a specific industry type may have slightly higher market values, but again, further analysis is needed to establish any causal relationship.

### 4.2 Panel Regression

Table 4.3 presents the results of a random effect estimation model that aims to examine the relationship between Tobin's Q (market value) and several predictor variables. The model provides coefficients, standard errors, t-statistics, and p-values for each predictor, as well as relevant statistical tests. The intercept term in the model has a coefficient of 0.0167, indicating the expected value of Tobin's Q when all predictor variables are zero. This coefficient is statistically significant at the 5% level (p-value = 0.043**), suggesting that there is a significant baseline market value even in the absence of any predictor variables.

*Table 2.3: Random Effect Estimation*

| | Tobin's Q (market value) | | | |
|---|---|---|---|---|
| **Predictors** | **Coefficient** | **Standard error** | **T-statistics** | **P-Value** |
| Intercept | 0.0167 | 0.0082 | 2.024 | 0.043** |
| AF | -0.0296 | 0.00621 | -4.764 | 0.000*** |
| ADF | 0.0248 | 0.0124 | 1.998 | 0.046** |
| FS | 0.0335 | 0.0188 | 1.782 | 0.078* |
| FA | 0.0609 | 0.0289 | 2.109 | 0.035** |
| IT | 0.0274 | 0.012 | 2.283 | 0.023** |
| R-squared | 0.364 | | | |
| Adjusted R-squared | 0.292 | | | |
| Durbin-Watson stat | | | | 0.382 |
| Breusch-Pagan Test | | | | 0.748 |
| Hausman Test | | | | 0.473 |

Source: Author Computation (2023): *Where Tobin's Q is the market value, AF is Audit fees, ADF is Audit firm, FS is Firm Size, FA is firm age, and IT is an industry type*

The results reveal that audit fees (AF) have a coefficient of -0.0296, implying that an increase in audit fees is linked to a decrease in Tobin's Q. This coefficient is highly statistically significant (p-value = 0.000***), indicating a strong and negative relationship between audit fees and market value. Furthermore, the audit firm variable displays a statistically significant positive relationship with Tobin's Q, with a coefficient of 0.0248 (p-value = 0.046**), suggesting that the presence of a particular audit firm is associated with an increase in market value.

Regarding other variables, firm size (FS) exhibits a positive coefficient of 0.0335, indicating that larger firms tend to have higher market values. However, the statistical significance of this relationship is relatively weak (p-value = 0.078*), suggesting that other factors may also influence this association. Firm age (FA) is linked to higher market values with a coefficient of 0.0609, and this relationship is statistically significant at the 5% level (p-value = 0.035**). Similarly, industry type (IT) shows a positive relationship with Tobin's Q, with a coefficient of 0.0274 (p-value = 0.023**), indicating that companies belonging to specific industry types tend to have higher market values, although this relationship may not be particularly strong.

The R-squared value of 0.364 indicates that the predictor variables account for approximately 36.4% of the variability in Tobin's Q. Adjusting for the number of predictors and sample size, the adjusted R-squared value of 0.292 provides a more conservative measure of the model's goodness of fit. The Durbin-Watson statistic of 0.382 suggests the presence of positive autocorrelation in the model residuals, indicating that the errors are not independent. However, the Breusch-Pagan test statistic of 0.748 indicates the absence of heteroscedasticity in the model residuals, suggesting that the errors' variance remains constant across different predictor values. Finally, the Hausman test statistic of 0.473 supports the suitability of the random effect model and confirms the assumption of no correlation between individual-specific effects and the predictors.

### 4.3 Robustness Test

Table 4.4 displays the outcomes of a robustness test that utilizes Generalized Method of Moments (GMM) estimation to investigate the correlation between Tobin's Q (market value) and various predictor variables. The GMM estimation technique is employed to address potential issues related to endogeneity and autocorrelation in the model. Within the table, you can find coefficients, standard errors, t-statistics, and p-values for each predictor variable, as well as p-values for the autoregressive (AR) tests.

Notably, the lagged Tobin's Q variable (Tobin's Q (t-1)) exhibits a coefficient of 0.0587, indicating that the market value from the previous period positively influences the current market value. This coefficient is highly statistically significant (p-value $< 0.001$), underscoring a robust and positive relationship between the lagged market value and Tobin's Q.

***Table 4.4: GMM Estimation***

| | Tobin's Q (market value) | | | |
|---|---|---|---|---|
| **Predictors** | **Coefficient** | **Standard error** | **T-statistics** | **P-Value** |
| Tobin's $Q_{t-1}$ | 0.0587 | 0.0128 | 4.588 | <0.001 |
| AF | -0.0477 | 0.0187 | -2.552 | 0.012** |
| ADF | 0.0121 | 0.0034 | 3.559 | 0.001*** |
| FS | 0.0177 | 0.0063 | 2.81 | 0.006*** |
| FA | 0.0177 | 0.0063 | 2.81 | 0.006*** |
| IT | 0.0103 | 0.0044 | 2.341 | 0.020** |
| AR(1) p-value | | | | 0.529 |
| AR(2) p-value | | | | 0.097 |

Source: Author Computation (2023): *Where Tobin's Q is the market value, AF is Audit fees, ADF is Audit firm, FS is Firm Size, FA is firm age, and IT is an industry type*

Audit fees (AF) display a coefficient of -0.0477, signifying an inverse relationship between audit fees and Tobin's Q. This coefficient is statistically significant at the 5% level (p-value = 0.012**), indicating that higher audit fees are linked to lower market values.

Regarding audit firm, it shows a positive coefficient of 0.0121, suggesting that an increase in the number of audit committee meetings is associated with higher market values. This coefficient is highly statistically significant at the 1% level (p-value = 0.001***), emphasizing a significant positive relationship.

Both firm size (FS) and firm age (FA) exhibit coefficients of 0.0177, implying positive associations with Tobin's Q. These coefficients are statistically significant at the 1% level (p-value = 0.006***), indicating that larger and older firms tend to have higher market values.

Industry type (IT) has a coefficient of 0.0103, indicating a positive relationship with Tobin's Q. This coefficient is statistically significant at the 5% level (p-value = 0.020**), suggesting that companies belonging to specific industry types tend to have higher market values.

As for the autoregressive (AR) tests, AR (1) and AR (2) have p-values of 0.529 and 0.097, respectively. These p-values indicate that there is no statistically significant autocorrelation in the model residuals, implying that errors are not correlated over time.

## 4.4 Discussion

### 4.4.1 The effect of audit fees on the firm value of listed companies on the Ghana Stock Exchange.

The outcomes derived from the analysis presented in Table 4.3 indicate a statistically significant inverse connection between audit fees (AF) and the valuation of publicly traded firms listed on the Ghana Stock Exchange. The regression analysis demonstrates that the coefficient estimate for audit fees is -0.0296, signifying a negative association between audit fees and the dependent variable. Importantly, this coefficient is highly statistically significant at the 1% level, as indicated by a p-value of 0.000***.

These findings suggest that there exists a negative relationship between an increase in audit fees and the market value of publicly traded companies. This implies that investors might perceive higher audit costs unfavorably, and such a perception could have a detrimental impact on the overall value of the firm. This discovery aligns with previous research that has highlighted the potential adverse effects of elevated audit fees on firm valuation.

For instance, a study conducted by Francis et al. (2019) delved into the connection between audit fees and stock returns within the context of U.S. corporations. Their research revealed that an uptick in audit costs was associated with a reduction in stock returns. This implies that investors could potentially interpret higher audit fees as a signal of increased financial risk or weakened firm performance, leading to a decrease in the overall worth of the firm.

Theoretical framework of signalling theory can be employed to analyse the inverse correlation between audit fees and corporate value. Based on the premises of this hypothesis, an increase in audit fees might potentially serve as an indicator of diminished financial stability or compromised quality, so influencing investors to consider the company as possessing a higher level of risk. Consequently, there is a possibility that investors may undervalue the company, resulting in a decline in its market capitalization. The assertion is substantiated by DeAngelo's (1981) signalling model, which posits that audit fees possess the capacity to serve as an indication of the calibre of a firm and can consequently impact the attitudes of investors. Furthermore, the perspective of agency theory can provide insight into this correlation. Audit fees are the expenses incurred in order to guarantee the accuracy and reliability of financial reporting, as well as to oversee the actions of management. Elevated audit fees may serve as an indicator of heightened intricacy or risk inherent in the company's activities, potentially implying the presence of agency issues within the organisational framework. This phenomenon has the potential to erode investor trust in the financial statements and performance of the firm, thus leading to a decline in the firm's overall worth.

### 4.4.2 The effect of audit firm on the firm value of listed companies on the Ghana Stock Exchange

The results obtained from the analysis presented in Table 4.3 reveal a statistically significant and positive influence of audit firms on the overall value of companies listed on the Ghana Stock Exchange. The coefficient for the audit firm variable is calculated to be 0.0248, and its statistical significance is confirmed at the 5% level with a p-value of 0.046**. This finding implies that firms associated with audit firms that possess greater credibility are more likely to exhibit elevated market values. The positive coefficient suggests that the active and engaged presence of an audit firm has a favourable impact on investor views and trust in the company. Audit firms are of significant importance in the improvement of corporate governance practises, the assurance of the accuracy and reliability of financial reporting, and the supervision of a company's financial operations. Audit committees play a crucial role in enhancing openness and accountability by engaging in active monitoring and evaluation of a company's financial statements, internal controls, and risk management procedures. Companies that possess efficient audit committees are perceived by investors as having more robust corporate governance processes and a steadfast dedication to maintaining financial integrity. This phenomenon serves to bolster investor trust and mitigate information asymmetry, hence resulting in elevated market valuations for the companies featured. A quality audit firm possesses the capability to effectively reduce the likelihood of financial misstatements or fraudulent actions, hence providing assurance to investors and stakeholders.

The correlation between audit firm and firm value is consistent with the existing body of research on corporate governance and business performance. Numerous prior research endeavours have consistently demonstrated a strong correlation between the calibre and efficacy of audit committees and the valuation of firms. As demonstrated in a study conducted by Asante-Darko et al. (2018), organisations characterised by robust audit committees exhibit a positive correlation with elevated firm valuations. In the specific context of the Ghana Stock Exchange, the observed beneficial impact of audit committee meetings on firm value implies that corporations should place significant emphasis on the development and effective operation of strong audit committees. This encompasses the need to ensure regular meetings of audit committees, comprising members who are both independent and well-informed, and possessing clearly defined tasks and power. Regulators and policymakers have a significant impact on enhancing the efficacy of audit committees by means of corporate governance norms and legislation. Regulators can play a significant role in bolstering investor trust and firm value on the Ghana Stock Exchange by placing emphasis on the significance of audit firms and establishing comprehensive rules for their composition and operational procedures.

The results shown in Table 4.3 contribute to the theoretical knowledge of the association between audit fees and firm value, as well as the influence of audit firms on firm value within the specific setting of the Ghana Stock Exchange. The inverse correlation between audit fees and firm value relates to the notion of signalling, which suggests that higher audit fees can be perceived as an indication of heightened financial risk or diminished corporate performance. This discovery is consistent with DeAngelo's (1981) signalling model, which posits that audit fees serve as an indication of the quality of a firm. The study provides evidence that investors may interpret greater audit costs as a signal of financial instability or lower-quality financial reporting, resulting in a decrease in business value. Furthermore, the correlation between audit firms and business value serves as a valuable addition to the current body of knowledge on corporate governance and firm performance. The findings suggest a positive correlation between the frequency of audit firm engagements and the market valuations of firms. This discovery emphasises the significance of an active and involved audit firm in bolstering corporate governance practises, guaranteeing financial integrity, and augmenting transparency. The study provides support for the concept that audit firms that are effective have a significant impact on reducing information asymmetry, bolstering investor trust, and eventually leading to increased corporate valuations. The aforementioned theoretical contributions offer significant insights that hold value for researchers, practitioners, and policymakers. The authors highlight the importance of taking into account audit fees and the efficacy of audit firms when assessing the worth of a corporation. Through comprehending the signalling implications of audit fees and the favourable influence of audit committee meetings, stakeholders are empowered to make well-informed judgements pertaining to corporate governance practises and the quality of financial reporting.

The practical contributions of the findings from Table 4.3 regarding the relationship between audit fees and firm value, as well as the impact of audit committee firm on firm value, have important implications for various stakeholders in the Ghanaian business environment. Firstly, for companies listed on the Ghana Stock Exchange, the study highlights the potential negative consequences of high audit fees on firm value. Companies should carefully assess and manage their audit fees to ensure they are reasonable and justifiable. This may involve negotiating audit fees with auditing firms, evaluating the scope of audit services, and exploring cost-effective alternatives without compromising the quality of financial reporting. By controlling audit fees, companies can potentially avoid negative perceptions from investors and protect their firm value. Secondly, the study underscores the significance of audit committee meetings in enhancing firm value. Companies should prioritize the establishment and functioning of effective audit firm. This includes ensuring that audit firm, have independent and knowledgeable members, and possess clear responsibilities and authority. By actively monitoring financial reporting processes, internal controls, and risk management, audit firm contribute to increased transparency, accountability, and investor confidence. Companies can strengthen their corporate governance practices by providing necessary resources and support to audit firm, empowering them to fulfil their oversight role effectively.

Thirdly, regulators and policymakers can utilize the findings to enhance corporate governance standards and guidelines. The positive relationship between audit firms and firm value suggests the importance of regulatory frameworks that emphasize the role and responsibilities of audit firm. Regulators can set clear guidelines for the composition, independence, expertise, and frequency of audit firm. By promoting effective audit committees through regulations, regulators can contribute to improving corporate governance practices, investor confidence, and ultimately firm value on the Ghana Stock Exchange. Furthermore, investors and financial analysts can consider the impact of audit fees and the effectiveness of audit committees when evaluating companies listed on the Ghana Stock Exchange. By incorporating these factors into their investment decision-making process, investors can gain insights into the potential risks and strengths associated with a company's financial reporting and governance practices. Financial analysts can also provide guidance and recommendations to investors based on the findings, helping them make more informed investment choices.

# CHAPTER FIVE

# SUMMARY, CONCLUSION, AND RECOMMENDATIONS

## 5.1 Introduction

This chapter serves as the concluding section of the thesis, encompassing a summary of results, conclusions drawn from the study, recommendations, and acknowledgment of research limitations. It is organized into four sections. The first part provides a concise overview of the study's findings, summarizing the key outcomes. In the second section, the conclusions derived from the study's results, specifically in relation to its objectives, are presented. The third section is dedicated to recommendations, offering important suggestions based on the primary findings of the research. Lastly, the conclusion section not only wraps up the thesis but also guides future research directions.

## 5.2 Summary

The research employed an explanatory research design to investigate how external auditors influence the value of companies listed on the Ghana Stock Exchange. The analysis involved using secondary data from the annual financial reports of ten specifically chosen firms, and it encompassed the utilization of fixed effect and dynamic regression models. To address potential endogeneity issues, the study conducted diagnostic tests, including AR (1) and AR (2) assessments for assessing serial correlation. The findings not only supported the research hypotheses but also provided valuable insights into the relationship between audit fees, audit firm selection, and firm value within the Ghanaian context.

Specifically, the research uncovered a statistically significant negative association between audit fees and the value of listed companies on the Ghana Stock Exchange. An upsurge in audit fees was correlated with a decrease in market value, suggesting that investors may perceive higher audit costs negatively, ultimately impacting firm value adversely. This discovery aligns with prior research that has also underscored the potential adverse effects of elevated audit fees on a firm's overall value. Furthermore, the study identified a significant positive influence of the choice of audit firm on the value of listed companies on the Ghana Stock Exchange.

Companies with more frequent audit firm tended to have higher market values. Quality audit firm enhance corporate governance practices, ensure financial reporting integrity, and provide oversight of financial activities. By actively monitoring and reviewing financial statements, internal controls, and risk management processes, audit firm contribute to increased transparency, accountability, and investor confidence.

### 5.3 Conclusion

The study aimed to investigate the impact of external auditors on the firm value of companies listed on the Ghana Stock Exchange. The study offers insightful information about the connection between audit fees, audit firm, and firm value for companies that are listed on the Ghana Stock Exchange. The findings reveal that greater audit fees are perceived by investors as a sign of more financial risk or weaker firm performance since they are linked to a decline in firm value. This emphasises how crucial it is to take into account any potential adverse effects of excessive audit fees on investor perceptions and company value. The study also demonstrates a beneficial impact of the audit company on firm value, on the other side. The importance of an efficient audit firm in advancing corporate governance practises, financial reporting integrity, and investor trust is highlighted by the fact that companies with more frequent audit firms typically have greater market values. The results support earlier research that emphasised the beneficial relationship between the calibre and efficiency of the audit firm and firm value.

### 5.4 Recommendation

Several suggestions for businesses, investors, regulators, and policymakers can be made in light of the study's findings in order to increase corporate value and investor confidence in the Ghana Stock Exchange. Companies should carefully consider and defend any increases in audit fees. Investors may see higher audit fees adversely, which could result in a decline in the firm's value. Therefore, businesses should be open and honest about the factors influencing audit fee hikes so that investors are aware of the benefits of the higher costs. In order to reduce the perception of increasing financial risk brought on by rising audit costs, businesses should also work to enhance their financial performance and risk management procedures. Companies should give priority to creating and running effective audit committees. These committees play a crucial role in promoting corporate governance practices and ensuring the accuracy of financial reporting, and supervising financial operations. Companies should make sure that audit committees have clear roles and authorities, meet frequently, and are made up of independent and knowledgeable individuals. Companies can raise firm values by doing this by increasing transparency, accountability, and investor confidence.

Investors should consider the quality and effectiveness of a company's audit committee when making investment decisions. Companies with strong and active audit committees tend to have higher firm valuations. Therefore, investors should carefully evaluate the composition and functioning of audit committees to assess the level of corporate governance and financial integrity within a company. Regulators and policymakers should emphasize the importance of effective audit committees through corporate governance guidelines and regulations. These guidelines should provide clear criteria for the composition, independence, and responsibilities of audit committees. Regulators should also encourage companies to disclose information about their audit committees, allowing investors to make informed decisions. By promoting effective corporate governance practices, regulators can enhance investor confidence and contribute to higher firm values on the Ghana Stock Exchange.

### 5.5 Suggestions for Future Research

The study offers insightful information about the connections between audit committee meetings, audit committee fees, and firm value on the Ghana Stock Exchange. However, a number of directions for further study can improve our comprehension of this subject. Future research could first examine the fundamental causes of the inverse link between audit fees and firm value. Although this study implies that investors may have a negative perspective of greater audit costs, it would be good to look further into the precise mechanisms by which this perception develops. The psychological and behavioural components of investor decision-making in response to audit fees may be better understood by closely examining investor reactions and perceptions, by interviewing or surveying investors, or by performing experimental investigations. The potential moderating impact of industry-specific factors on the link between audit fees and business value should also be explored in additional research. Investor perception of audit fees may vary depending on the complexity, risk, and financial reporting requirements of various businesses. A more thorough understanding of this relationship might result from investigating the role audit fees play in conjunction with industry-specific variables in determining business value.

Future studies should also look at how audit quality affects the link between audit fees and firm value. Although the quality of the audit itself may be quite important, this study concentrated on the direct relationship between audit fees and firm value. Examining the relationship between audit fees and audit quality, as determined by factors like auditor reputation, expertise, and independence, would shed light on the larger picture of financial reporting and investor confidence. Examining the effects of audit committee features outside of meeting frequency on business value is a fascinating area for future research. Although this study showed a link between audit committee meetings and business value, other aspects of audit committee effectiveness could be investigated. For instance, the experience, independence, and diversity of the audit committee may have an impact on how investors see the company and its worth.

A deeper understanding of the function of audit committees in boosting corporate value would result from looking into these extra elements. Finally, future studies could broaden their focus beyond the Ghana Stock Exchange and look at how audit fees, audit committee meetings, and firm value relate in various contexts and nations. It would be possible to detect parallels and variations in the findings about the effects of audit fees and audit committees on business value by comparing the results across various markets and regulatory contexts. This would improve the findings' generalizability and offer knowledge that can direct regulatory practises and policies in many jurisdictions.

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