The Impact of Audit Committees' Meetings and Audit Fees on the Financial Performance of Listed Banks in Ghana

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***Abstract:*-The study adopted quantitative research approach and descriptive research method to assess the impact of Audit committee on financial performance of banks listed on the Ghana Stock Exchange. Audit committee variables used were: Audit Committee Meetings, Audit Committee Size, and Audit fees. Financial performance was examined using Return on Asset (ROA) and Return on Equity (ROE). The researcher found that listed banks financial performance with respect to ROA was positively influenced by audit committee size and audit fees whilst ROE was negatively skewed by audit committee meetings. Though negative relations were found between ROA, ROE and some Audit committee variables as used in this study, the regression model used indicated that over 60% of variability in financial performance of the listed banks was due to Audit committee and fees.**

I. INTRODUCTION

1.0 Background of the Study

In modern day business competitive environment, the goal for the establishment of firms and organizations is to make profit, grow and expand to provide services to customers though other scholars have posited that profit is not cash hence the ultimate goal should be maximization of shareholders wealth. Rustam, S., Rashid, K. and Zaman, K. (2013) posited that the problem of separation of ownership, corporate scandals and control in businesses as well as competition have become issues that distinguishes organizational performance and play crucial roles in determining the survival of businesses.

Auditing remains one of the key measures of corporate governance that has received increased attention through the numerous corporate scandals such as WorldCom or Enron (Rustam et al., 2013; Feng et al., 2011; Hosseini et al., 2010). This is because in most of the corporate scandals, managers followed their own selfish interests resulting to disintegration of the business and devastation of wealth of shareholders (Rustam et al., 2013).

The Sarbanes–Oxley act also known as the Public Company Accounting Reform and Investor Protection Act was passed in 2002 to respond to the corporate and accounting scandals emerging in businesses. The act contains eleven sections which emphasis on the responsibilities of Board of Directors of public corporations and criminal penalties for certain misconduct. The act demands from the Securities and Exchange Commission to create regulations to shape and define ways businesses could comply with the law. According to Rustam et al., (2013) the Sarbanes–Oxley act has made multiple effects on audit committee activities and audit fees charged by auditors thereafter.

The guidelines in corporate governance formed in the wake of numerous corporate scandals suggest an important role for audit committees (Feng et al., 2011). According to Abbott et al., (2004) audit committee protects shareholder's interest and ensure transparent reporting and enhance performance. Audit committees ensure vigorous monitoring of the financial reporting process and also predict the relationship between management of business and external auditors. The audit committees take the responsibility to hire and compensate internal and external auditors (Rustam et al., 2013; Abbott et al., 2003). Thus, audit committee plays a key role in determining audit fees and firm performance.

Audit fees represent an economic cost to the organization and therefore the effects it has on business performance is relevant in two ways. The first reason is that internal and external auditing guarantee unfailing financial reporting of the business (Cohen et al., 2002). The second reason is that audit fees given to auditors for offering their services lead to loss of profit to the shareholders and hence, lower taxes payable(Rustam et al., 2013). Rustam et al., (2013) identified that audit committee activities have significant relationship with audit fees and financial performance of firms. The current study by Glover-Akpey (2016) in Ghana revealed that there is a relationship between audit committee characteristics and performance of firms. Amer et al., (2014) discovered a positive relationship between independent directors on the audit committees and audit fees and financial performance measured by Return on Equity (ROE). In the wake of the merger of some banking institutions in Ghana called the Consolidated Bank of Ghana and the liquidation of several others in 2018 following poor corporate governance structures and poor financial management practices, many a stakeholder decries the need to sanction the auditors that were in charge of auditing these defunct banking institutions whilst others think otherwise, thereby creating the need for further studies in "examining the impact of audit committees as regards audit committee meetings and audit fees on the financial performance of listed banks in Ghana".

Exclusively, audit committee and audit fees affects firm performance that is consistent with many researchers (Aryan, 2015; Habbash, 2015; Kikhia, 2014; James and Izien, 2014; Al-Matari et al., 2012; Barua et al., 2010; Bhagat and Bolton, 2008; Brown and Caylor, 2009). However, the impact of audit fees and audit committee on performance depends on total assets (firm size) of the business, age of the firm, profitability and other features of audited entity (Hay et al., 2008; Vafeas and Waeglein, 2007; Gul and Tsui, 2001).

1.2 Statement of the Problem

The aim of organizations is to increase its profit margin for a period of time. However, this is not well-suited with the interests of managers, as they wish to satisfy their own personal interests, if possible, even at the expense of other stakeholders. This incongruity of interest results to agency problems which invariably jeopardise activities of the business to improve performance and this is particularly severe among institutions in Ghana (Glover-Akpey, 2016). This often leads to asymmetry of information challenges.

Consequently, it has been reiterated that most banking institutions in Ghana have weak capacity to perform crucial financial reporting systems. This perhaps may be attributed to the fact that the banking institutions have inadequate experts and resources to implement such activities. It has also be unraveled that conflict of interests of stakeholders in the institution has resulted to poor financial reporting systems. Glover-Akpey (2016) stated that creative accounting has increased among the banking institutions in Ghana and this has made stakeholders at all level to become astounded.

Albeit Rustam et al., (2013), opined that audit committee meetings could mitigate the use of creative accounting the world over. This is because it is the best interests of audit committee activities to exercise influence over the financial resources available to the internal audit function. It is argued that audit committees review the internal audit budget which result to more financial resource allocated to the internal audit function (Carcello et al., 2005). The purpose of this study is to investigate the impact of audit committee activities and audit fees on financial performance of listed banks in Ghana.

1.3 Research Aim and Objectives

The general aim of this research was to assess the relationship between audit committees' meetings and audit fees on the financial performance of listed banks. The specific objectives include ;

1. To examine the correlation between audit committees and financial performance of listed banks in Ghana.
2. To assess the relationship between audit fees and financial performance of listed banks.

1.4 Research Questions

1. What is the relationship between audit committees and financial performance of listed banks?
2. What is the relationship between audit fees and financial performance of listed banks?

II. CONCEPTUAL REVIEW OF THE STUDY

This section presents the definitions of concepts such as audit fees, audit committees and firm's performance.

2.1.1 Audit Fees: Definitions, Framework and Determinants

Soltani (2007),defined audit fees as the costs associated with an auditor carrying out a task to form an opinion on whether the customer's general financial statements are prepared in relation to accounting standards and principles and are true and fair within the given circumstance. In the view of Rustam et al. (2013) audit fees is the product of unit price and quantity of audit services given by the audit company requested by Directors of the audit firms.

According to Hay et al. (2006), audit fee research has now covered (25) years with the main determinants of audit fees being customer size, the overall audit risk, complexity of the client, customer profitability, owners of the company, and the degree of competition of market share (Naser et al. 2007).

In the face of hug or rising litigation cost, many companies avoid the involvement of risky clients for audit processing (Bell et al., 2008).

H_{2a}: The financial performance of firms is associated with the amount of audit fees paid to auditors.

H_{2b}: The financial performance of firms is associated with the frequency of payments of audit fees to auditors.

H_{2c}: The financial performance of firms is associated with executive incentives.

2.1.2 Audit Committee: Definitions, Framework and Characteristics

Audit committee can be viewed as the sub-committees of the Board. Many institutions and agencies considered audit committees as a way of providing active supervision of the financial reporting process and also ensure monitoring of the relationship between management of the firm and its external auditor. This therefore indicates that audit committee plays gargantuanrole in determining audit fees (Naser et al. 2007; Mitra et al., 2007). The responsibility of audit committee is to hire the services of audit consultants and compensate the auditors to perform better to improve business performance. Apart from this role, it also frequently reviews the committee charter and present reports to the Board of Directors. The hypothesis becomes:

H_{1a}: The financial performance of firms is not associated with the frequency of audit committee meetings.

2.2 Conceptual Framework of the Study

This section outlines the dependent and independent variables of the study. Figure 2.1 shows the correlation between audit committee characteristics and performance. It also shows the relationships between audit fees and audit committees on listed bank's financial performance.

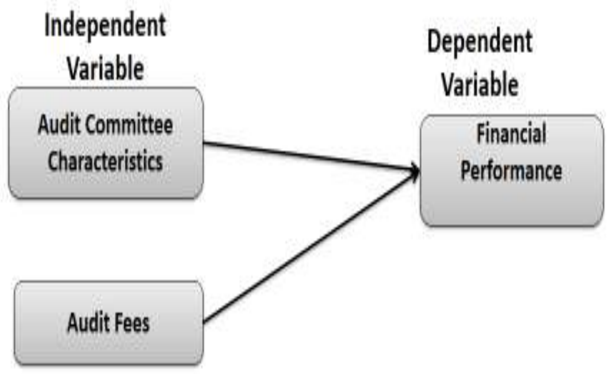

Figure 2.1: Conceptual Framework of the Study

Source: Author's Construct, 2019

III. DATA AND DATA SOURCE

Merriam (2002) identified three major sources of data for a research study-interviews, observation, and documents. The study used secondary data comprising mainly of banks annual financial and non-financial data. Wilson (2010) described secondary data as data that have already been collected by others (individuals, corporations, governments, etc) other than those directly collected from research respondents by the researcher, which includes everything from annual reports, published case descriptions and newspaper reports, as well as government printed sources.

The financial data was collected from the Ghana Stock Exchange website and some from the websites of the companies. The data was taken from 2013 to 2017 from the various bank financial statements. The type of data collected included the amount of audit fees given to auditors, the frequency of audit meetings

3. 2 Data Collection Strategy

Data collection is defined as the sources from which data was collected and the data collection instruments used (Saunders et al., 2012).

Research strategy sets the tone for the type, source and approach to data collection. In this study, the research strategy adopted is content analysis of annual reports. Data collection was operationalized by manually extracting relevant data from the audited annual financial reports of the selected companies. Some of the audited annual financial reports were accessed by obtaining hard-copies directly from the companies, whereas others were downloaded from the official websites of the companies, SEC, and GSE.

Given the focus of the study, using data drawn from financial statements of the companies was considered highly suitable and appropriate. Data collected through annual reports are often regarded objective, reliable, unobtrusive and free from response biases from individual respondents in the case of interviews and questionnaires. According to Merriam (2002), the strength of documents as sources of data lies with the fact that they already exist in the situation; they do not intrude upon or alter the settings in ways that the presence of the investigator might, nor are they dependent upon the whims of human beings whose cooperation is essential for collecting data through interviews (Merriam, 2002).

3.3 Description of Variables

As indicated in Table 3.1, the study used Return on Equity as the dependent variable which measures the financial performance of the companies. The outcome of the dependent variable was influenced by the independent variables. The independent variables include audit committee characteristics and audit fees. The audit committee variables include frequency of meetingsand audit fees. The variables identified with audit fees include frequency of audit fees paid by the companies and incentives or compensations given to auditors.

Table 3.1: Study Variables for Regression Analysis

Broad variables	Specific variables	Description	Symbol	Type of variable
Audit Committee	Audit Committee Meetings	It is defined as the number of meetings held by the audit committee in year	Acm	Independent
Audit Fees	Frequency of Audit Fee Payment	It is defined as the number of time audit fees are paid to auditors.	AuFf	Independent
	Audit Incentives/ compensations	It is defined as the motivation given to the audit committees	AuI	Independent
Financial Performance	ROA and ROE	Return on Equity (ROE) and Return on Asset (ROA) were used to assess the financial strength of the insurance companies.	ROA ROE	Dependent variable

Source: Author's construct, 2019

The panel data regression analysis was performed to assess the cause and effect relationships between the dependent and the independent variables.

IV. REGRESSION ANALYSIS

This section presents results on the regression analysis which was conducted at confident interval of 95%, the study adopted random effect model for the panel regression analysis as suggested by the model specification test. The rationale behind random effects model is that, unlike the fixed effects model, the variation across entities is assumed to be random and uncorrelated with the predictor or independent variables included in the model.

4.1.1 Regression analysis for ROA, Audit Committee and Audit Fees

From the regression analysis it is observed that Audit Committee Meetings (ACM) negatively but significantly influence ROA with a coefficient of -0.119 and significant at alpha of 0.10.

With regard to the Audit fee variables it was observed thatAudit Incentives/compensations passively influence ROA at a significant level of 0.05 with a coefficient of 0.122. Frequency of Audit Fee Payment had no influence on ROA. From table 4.3 below R^2 for the regression model is observed to be 0.430, indicating that over 40% of variability in Banks ROA is caused by the variables of Audit committee and Audit committee fees though Frequency of Audit Fee Payment was found not to have any relation with ROA.

Table 4.1:Regression analysis for ROA, Audit Committee and Audit Fees

VARIABLES	(1) ROA
AuFf	-
ACM	-0.119*
	(0.135)
Constant	0.629***
	(0.690)
R^2	0.430
Observations	50
Number of BankName1	10

Standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

4.2 Regression analysis for ROE, Audit Committee and Audit Fees

This regression model adopted random effects. From table 4.1 below R^2 for the regression model is observed to be 0.620, indicating that over 600% of variability in Banks ROE is caused by the variables of Audit committee and Audit committee fees.

From the regression analysis it is observed that Audit Committee Meetings (ACM) positively and significantly influence ROE with a coefficient of 0.376 and significant at alpha of 0.05.

With regard to the Audit fee variables it was observed that Audit Incentives/compensations passively influence ROE at a significant level of 0.05 with a coefficient of 0.0130. Frequency of Audit Fee Payment had no influence on ROE. Details of the regression analysis are presented in table 4.2 bellow.

Table 4.2: Regression analysis for ROA, Audit Committee and Audit Fees

VARIABLES	(1) ROE
AuI	0.0130**
	(0.00622)
AuFf	-
ACM	0.376**
	(0.782)
Constant	11.71
	(10.20)
R^2	0.620
Observations	50
Number of BankName1	10

Standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

Discussion of Results and Hypothesis Testing

This section tests the study hypothesis postulated by the researcher base on the findings in the current study, further the findings in this study are discussed in relation to findings in existing literature in the corporate governance domain.

4.3. Audit committees and financial performance

The first objective of the study aimed to assess the relationship between audit committees and financial performance of listed banks in Ghana. The researcher posited that:

H_{1a}: *The financial performance of firms is not associated with the frequency of audit committee meetings.*

However, findings from this study indicate that frequency of audit committee meetings significant but negatively influence ROA. On the other hand a significant and positive relation was observed for it relation with ROE. On this basis the null hypothesis that "The financial performance of firms is not associated with the frequency of audit committee meetings" is rejected and the alternate accepted. Inferring from these findings it can be argued that financial performance of banks on the GSE is associated with the frequency of audit committee meetings. These findings are in agreement with (Collier and Gregory, 1996; Harris, 2007; Zaman, Hudaib and Haniffa, 2011). Harris (2007), argues in favor with this finding, suggesting that governance agents appear to require additional assurance from the auditor, given close oversight by regulators

4.4 Audit Fees and financial performance

Association of financial performance with the amount of audit fees paid to auditors have been found in the current to have significant and positive relation. From literature the researcher posits that:

H_{2a}: The financial performance of firms is associated with the amount of audit fees paid to auditors.

Since findings corroborate with the hypothesis 2a posited by the researcher, it has been accepted. Similar findings has been reported by Karim, Robin and Suh, (2016) that opined that Audit committee effective oversight is associated with strong corporate governance and that in an environment with strong governance, monitoring efforts by the audit committee are similarly effective which may lead to improved financial performance and hence improve agency fees.

Hypothesis 2b posits that:financial performance of firms is associated with the frequency of payments of audit fees to auditors.

H_{2b}: The financial performance of firms is associated with the frequency of payments of audit fees to auditors.

However, the results did not indicate any correlation between financial performance and frequency of payments of audit fees to auditors, therefore, the hypothesis is rejected.

4.5 Relationship between audit committees and audit fees

From the correlation analysis it was observed that Frequency of Audit fee payment had no correlation with any variable of Audit committee. In view of this, hypothesis 3 which states that:

H_3: There is a relationship between audit committee and audit fees.

Has been accepted and the null rejected.

Collier and Gregory (1996), argue that that the audit committee may be expected to exert a two-way pressure on audit fees. To the extent that audit committees should enhance audit quality, partly by ensuring that audit hours are not reduced, an audit committee may be expected to increase total audit fees. At the same time, an audit committee may reasonably be thought to be a proxy for internal control strength. Ceteris paribus, companies with strong internal controls may be expected to pay lower audit fees than those with weak internal controls. This argument is corroborated by (Goodwin-Stewait and Kent, 2006; Ittonen, Miettinen and Vähämaa, 2010; Rustam, Rashid and Zaman, 2013; Marini, Rohana and Keshab, 2016).

V. CONCLUSIONS

Base on the findings the researcher concludes that:

1. Audit committees significantly and passively influence financial performance of listed banks in Ghana.
2. Audit fees significantly and positively influence financial performance of listed banks.
3. And finally audit committees and audit fees of listed companies on the Ghana Stock Exchange are significantly related though the relation found to be both positive and negative depending on the variable of interest.

Recommendations

The study brought to light some interesting findings in the subject area under study which calls for further research to include unlisted banks who observe corporate governance to fully appreciate the dynamics of Audit committees and it impact on financial performance.

Moreover, the current study used quantitative approach and it is recommended that similar studies using qualitative approach should be conducted so that the findings can be juxtaposed for effective decision making.

Research findings shows that Audit committees influence financial performance. This is believed to be one of the contributory factors that undermines corporate governance in weak governance environments. But in environments with effective Audit committees additional oversight is provided to other agents of governance. Therefore, it is recommended that firms should ensure independent Audit committees to ensure effective oversight over other governance agents.

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