AUDITORS’ INDEPENDENCE AND AUDIT QUALITY: EVIDENCE FROM BANKS IN GHANA

BY

OLIVIA ASARE ASANTE

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A DISSERTATION SUBMITTED IN PARTIAL FULFILLMENT OF THE AWARD OF BSc. BUSINESS ADMINISTRATION (ACCOUNTING AND FINANCE OPTION)

BY

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OK1680/11

MAY, 2015
DECLARATION

I do declare that except for the references to other people’s work which have been cited, this work submitted as a project to the department of Business Administration, Okwahu campus of the Presbyterian University College, Ghana, for the degree of Bachelor of science in Business Administration (Accounting and Finance) is the result of my own investigation and has not been presented for any degree.

........................................  ......................................................
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........................................  ......................................................
DATE                                 DATE
DEDICATION

I dedicate this project work to the most High God for the great things he has done throughout my four years stay on campus. Unto Him alone be the glory for His unmerited favor he has bestowed on me.

I also dedicate this work to my dearest father Mr. Ammishaddai Asare Asante and my sweet loving mother Mrs. Olivia Asare Asante for their unconditional love for me and also helping me to complete my four-year course, I love you so much. I say God bless them abundantly for being such wonderful parents. Also, to my lovely siblings; Nana Kwabena Atua, Samuel Offei, Ellen Kobe and Priscilla Asante and of course my sweetest son Isaac Dodzi Yao Sosu, I say thank you all for being part of me and I love you so much.

I also dedicate this project to my friend Charles Addae, thank you very much for the encouragement; I am very grateful. The last but not the least dedication goes to my entire family for their sincere love, care and financial support. I will forever be grateful.
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ABSTRACT

The purpose of an audit is to form an opinion as to whether the information presented in the financial report, taken as a whole, reflects the financial position of the organization at a given date. Empirical evidence confirmed that audit quality perceptions are primarily influenced by the knowledge of the auditor and independence perceptions. The study therefore looks at auditors’ independence and the quality of an audit of banks in Ghana. Out of 28 banks in Ghana, nine banks were used for the study with their six years annual report (2008-2013).

The study reveals that, there is a positive relationship between audit firm type and audit fees which was statistically insignificance. The finding suggests that the quality and management of property plant and equipment is a key determinant of audit fees in the selected banks in Ghana. Since the study showed a negative relationship between property plant and equipment and audit fees, further studies involving this relationship could also be done on non-listed financial institutions to confirm the result of this study and expand the scope.
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CHAPTER ONE
RESEARCH INTRODUCTION AND CONTEST

1.1 Background of Study

In recent time auditor independence has become a key issue in corporate world following many corporate scandals that have been hitting the businesses. The investigations of questionable accounting practices by auditors in major firms and businesses have brought the issue of auditor independence to the forefront. Empirical evidence confirmed that audit quality perceptions are primarily influenced by the knowledge of the auditor and independence perceptions. These perceptions of the auditor’s independence (objectivity) affect the confidence of investors in financial statements, and also affect financial statement users’ decisions based on those statements (SEC 2000).

The United Nations (UN) Guidelines for effective Financial Management (2000) observed that auditing identifies and highlights instances where laws and regulations of financial management have not been complied with, where financial systems need strengthening, and possibly, where value for money has not been achieved. In particular, internal audit provides the first lines of defense against misuse or mismanagement of funds whilst external auditing provides broader oversight functions over accountability. The purpose of auditing is to add value and improve an organization’s operations, and hiding information is against the organization's best interests.

It is clear that the current crisis of the accounting profession has revived the debate on auditor independence and auditor regulation. Indeed, “at the heart of the audit failures lies a set of business relationships that are bedeviled by perverse incentives and conflicts of interest. In theory, a company’s auditors are appointed independently by its shareholders, to whom they report. In practice, they are chosen by the company’s bosses, to whom they all too often become
beholden.” (The Economist, 2002). Hence, auditors might be more inclined to allow aggressive and opportunistic reporting of accruals, resulting in lower quality audits and thus lower quality earnings. However, there is no evidence of the relationship between more rigorous regulation of the auditing profession and earnings quality. The focus has primarily been on auditor quality (Becker, et al., 1998)

There might be a handful of Auditors who portray themselves as fault-finding experts. As long as individuals feel that an audit is a surprise attack designed to catch them in error, they will conceal problems. They won't look upon the audit as a fact-finding event designed to foster a culture of improvement. They will look upon it with the fear of offenders afraid to be punished for their wrongdoings, even though they have probably done nothing wrong.

In reality, auditing focuses on addressing major risks and controls in the organization, rather than finding fault. The purpose of an audit is to form a view of whether the information presented in the financial report, taken as a whole, reflects the financial position of the organization at a given date. Auditor’s independence is a key factor that affects the degree of professional skepticism demonstrated during an audit.

The avoidance of facts and circumstances that are so significant that a reasonable and informed third party would be likely to conclude, weighing all the specific facts and circumstances, that firms, or a member of the audit team’s, integrity, objectivity or professional skepticism has been compromised.

Audit appointments are normally made by shareholders; they are usually proposed by the audit committee and, in practice, are often influenced by the recommendations of management. In providing an opinion on the financial statements, the auditors are then expected to evaluate assertions of the people who influenced their appointment and the payment of the auditors’ fees.
Clearly, this practical connection with management creates an inherent conflict for the independent role of the auditor.

(Angelo, 1981) defines audit quality as the combined probability of (1) detecting a material misstatement in financial statements (a competency issue), and (2) disclosing that misstatement (an independence issue). It is the periodic, independent, and documented examination and verification of activities, records, processes, and other elements of a quality system to determine their conformity with the requirements of a quality standard such as ISO9000.

Quality audit is the process of systematic examination of a quality system carried out by an internal or external auditor or an audit team. It is an important part of organization’s quality management system and is a key element in the ISO quality system standard, ISO 9001. Quality audit can be an integral part of compliance or regulatory requirements of every organization. It is an essential management tool to be used for verifying objective evidence of processes, to access how successfully processes have been implemented for judging the effectiveness of achieving any target levels, to provide evidence concerning reduction and elimination of problem areas.

To access the performance of the committee in discharging their responsibilities is to know the factors that account for committee performance.

1.2 Statement of the problem

Company financial reporting is the key to efficient and effective operation of capital markets. A critical element is the quality of the audit, and auditor independence is one of a number of important blocks on which that quality is built. To maintain the integrity of the audit, the auditor must be independent, have legal mandate to undertake the audit, and report the findings to the council. (Schaeffer, 2009)
Regardless of all the efforts made by auditors to maintain their independence, the problem seems to exist in reality and a lot of companies are finding it difficult to curb this situation. This is a critical issue that needs a lot of research to be done in order to help resolve this issue of auditor’s independence. It is against this backdrop that this research investigates “The auditors' independence and the quality of an audit” in banks in Ghana.

1.3 Objectives of the Study

1.3.1 General objectives

The general objective of the study is to find out the relationship between auditor’s independence and the quality of an audit.

1.3.2 Specific objectives

The specific objectives of the study are as follows:

1. Examine the relationship between auditor’s independence and quality of an audit.
2. Examine the relationship between audit work and audit fees.

1.4 Research Questions

Following the research objectives of the study the questions were posed to aid achieve the objectives.

1. What is relationship between auditor’s independence and audit quality?
2. Is there a relationship between audit work and audit fees?

1.5 Relevance of the Research

The outcome of the study will help add to the existing knowledge and understanding of the concept of auditor independence. The study will elaborates the importance of mandatory firm rotation and the extent to which it helps to maintain auditor independence and improving the quality of an audit.
It intends to be used as a point of reference of framework or serve as a benchmark for prospect researchers who would want to carry out a study on this topic and related ones. It is also envisaged that the outcome of this study will go a long way to assist and widen the knowledge base and understanding of auditors, managers, shareholders and the public in general on auditors’ independence and how it improves the quality of an audit work.

1.6 Limitation of the Study

The limitation associated with this research is that, the research is focused mainly on relationship between auditor’s independence and the quality of an audit; however there will be other economic variables that can affect the quality of an audit and independence of the auditor. Although the above mentioned limiting factor was present, it did not affect the research to any significant extent as the objectives of the research were accomplished.

1.7 Organization of the Chapters

This study will be organized into five chapters.

The first chapter deals with the introduction, background of study, statement of problem, research questions, objective of the study, relevance of the study, research methodology, and organization of the study.

The second chapter will deal with the literature review of the research topic, that is, different literatures in regard to the hypothetical examination and review of books, articles and thesis related to this study.

The third chapter will be the methodology and it shows the study designs and methods employed. It will include the research design, population and sample, source and technique of data collection, data analysis tools.
The fourth chapter will consist of the presentation and analysis of data or information obtained from the study.

Finally, the fifth chapter tends to put the findings of the study in summary, draws conclusions and gives recommendations.
CHAPTER TWO
LITERATURE REVIEW

2.1 Introduction
Auditing and audit independence are very essential for improving upon the accuracy and reliability of financial statements of corporate bodies and thus the quality of the statements. This chapter delves into what literature says about auditing, auditors, impact of the auditors’ independence and the factors that affect the quality of an audit. This chapter also discusses empirical work done on the topic and its related issues.

2.2 Theoretical Literature Review

2.2.1 Definition of Auditing
Auditing thus far has got so many definitions by different scholars and bodies. For the purpose of this research we shall consider these definitions. The International Standard on Auditing defines auditing as a process carried out by an appointed qualified person or body, whereby the record and financial statements of an entity are subjected to independent examination in such detail as will enable the auditor form an opinion as to their truth and fairness.

Konrath (1996) defined auditing as “the systematic process, consisting of a series of sequential steps that include information system testing of transactions and balances.” Auditing is the process of examining the financial statements and the underlying records of a company in order to render an opinion as to whether the statements are truly and fairly presented”(Omane-Antwi, 2009). In the brief words of Louwers et al (2002), Auditing refers primarily to the certification of financial statements.

Auditing is a process of reducing to a socially acceptable level the information risk users of financial statements. Auditing does not include the function of financial report production
An audit is the independent examination of, and expression of an opinion on the financial statements of an enterprise by an appointed auditor in pursuance of that appointment and in compliance with any relevant statutory obligation (Aveh, 2012). An audit also includes evaluating the appropriateness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

According to the International Auditing Standard Board (IASB), an audit is the term used to describe the work that is undertaken by the auditor to enable him or her express an independent audit opinion on an entity’s financial statements and, where the entity is a parent company, on the group financial statements and or the separate financial statements of its components.

### 2.2.2 Objectives of an Audit

The audit is especially intended to meet the needs of financial information users such as investors, creditors, prospective creditors and government institutions (Boyton and Kell, 2006). According to (Aveh 2012), an audit has two objectives. These are the primary objective and the secondary objectives. The primary objective of an audit is to enable the auditor to form and express an independent opinion on the financial statements.

However, the secondary objectives are to detect errors and frauds, to prevent errors and frauds by the deterrent and moral effect of the audit and also by assisting clients to institute improved financial control systems; and finally to assist clients with accounting systems, taxation, financial and other related problems.

### 2.3 Auditor independence.

It is an arguable fact that for the auditor to express a true and fair view of financial statements, he must be free from an influence from the management of the company or the firm. The auditor’s independence is the basis of the auditing profession. Arens (2012) stated that the independence
of the auditor from the firm means that auditing is one of the basic requirements to keep public confidence in the reliability of the audit report. It is defined as the refusal of the auditor to support any detected misstatements and standing against client’s attempts to influence his/her audit report (Nichols and Price, 1976; Lu, 2005).

The American Institute for Certified Public Accountants (AICPA) in its code of ethical conduct which revolves about the idea that an auditor has a primary responsibility towards the public; in its fourth principle, it states that objectivity and independence should be maintained by the auditor and that independence should be exercised both in fact and in appearance while providing an audit or any other attestation service (Collins and Schultz, 1995). When the auditor is regarded as being independent, the public will be more confident in the financial information thus helping taking right financial decision (Ghosh and Moon, 2004; Cameran et al., 2005).

An audit report accompanying a set of a reporting issuer’s financial statements is valuable to readers, but only if it forms a dispassionate, unbiased and impartial view of the results of the company’s financial activities.

### 2.3.1 Factors influencing auditor independence

The potential positive impact of each of the auditor independence standards can be affected by these instances.

Advertising and unsolicited offering of services can be considered as a threat to independence since an auditor who is very eager to be hired, may show less resistance to his client when the financial statements are not fairly presented. Hence, auditors exposing themselves to commercial promotions are perceived to be less independent. In addition, banning advertisements and unsolicited offerings reduces competition among audit firms and, as such, reduces the need for an auditor to be bent for client pressure.
A requirement on the number of statutory auditors could enhance auditor independence since hiring more than one statutory auditor requires that the audit working papers of the statutory auditors have to correspond and lead to the same audit opinion. Requiring approval of the appointment of a statutory auditor by any party other than the appointing party could enhance auditor independence since this other party is considered to act in the interest of the public in general and not in the interest of the company. The external party has an implicit incentive and the opportunity to approve only those audit firms of which it expects sufficient independence. A minimum length of audit mandate of more than one year is expected to enhance auditor independence since it relieves the fear of the incumbent auditor of being dismissed during a certain minimum period of time. Disclosure and regulation on calculation of audit fees could enhance auditor independence as it provides public insight into the financial dependence of an auditor on a client and whether the fee corresponds with the complexity of the assignment. The adoption of standards concerning the calculation of audit fees further reduces audit firms’ opportunities of low-balling. Limiting auditors from becoming financially dependent on an individual client is expected to improve auditor’s resistance against pressure exerted by the client’s management. Providing management advisory services to a client increases the size of the auditor’s economic interest in a client and the auditor’s fear of losing a lucrative audit assignment, which could compromise auditor independence.

### 2.3.2 Mandatory Audit Firm Rotation

Mandatory audit firm rotation is defined in the Sarbanes-Oxley (SOX) Act 1 as the imposition of a limit on the period of years during which an accounting firm may be the auditor of record. Mandatory audit firm rotation is often discussed as a potential way to improve audit quality. It is
often argued that mandatory auditor rotation rules have the potential to produce both benefits and costs to audit markets. Rotation of audit partners or audit firms is expected to strengthen auditor independence since it prevents an auditor from becoming too committed to their client and decreases the possibilities of the client to influence the auditor. Rotation of audit firms would in addition reduce the loss of economic interest and these would lead to an increase in competition among auditing firms.

Imposing restrictions on auditors moving to clients or client’s personnel moving to audit firms reduces the probability of familiarity that fades objectivity. It further prevents that auditors do not withstand client pressure in order to safeguard opportunities to obtain senior management positions with client firms. Peer reviews are perceived to deter auditors from compromising independence because the audit working papers of an audit firm are reviewed by another audit firm to ensure that the audit report is justified by the evidence collected.

An audit committee should safeguard a good system of internal control, which reduces the likelihood of not fairly presented financial statements. Hence, it reduces the probability of a disagreement between the auditor and the client and the need of the auditor to resist client’s management power.

2.3.3 Audit quality

As a profession holding considerable responsibility in carrying the trust of the people, the auditor needs to ensure the resulted audit quality (Frohnen and Clarke, 2002). Audit quality is defined as the probability that an auditor will both discover and report a breach in the client’s accounting system. Although, the probability of discovering a breach depends on auditor’s technical capabilities, the probability of reporting of the errors depend on the degree of the auditor’s independence (Vanstraelen, 2000; Deis and Giroux, 1992; De Angelo, 1981). Turley and
Willekens (2008) states that audit quality is normally related to the ability of the auditor to identify material misstatement in the financial statements and their willingness to issue an appropriate and unbiased audit report based on the audit result.

In addition, Schilder (2011) states that audit quality needs to be based on international auditing and assurance standard board (IAASB) perspective. Conceptually, IAASB argues that there are three fundamental aspects in audit quality, that is, input, processes, and context factor. The input comprises of two dimensions, namely personal attributes of auditor with the indicators of expertise, ethical values and mindset and auditing process with the indicators of auditing method reliability, the effectiveness of audit tools and the availability of technical support. Output in audit quality has two dimensions namely public auditor report and public auditor communication. Context factor also consists of two factors, namely governance, law and regulation.

Furthermore, International Standard ISO 8402-1986 (1989) Titled Quality Vocabulary adapted by Mills (1993) remarks that audit quality is a systematic and independent examination to determine whether quality activities and related results company are in line with planned arrangements and whether these arrangements are implemented effectively and are suitable to achieve objectives. In respect to services, Boynton et al. (2006) argues that every profession is consistently related to the quality of the services it provides, including auditors in which the quality of its services is of utmost importance to assure that this profession is responsible to the clients, the people, and regulations. The audit quality refers to standards concerning standards with criteria or execution quality measures and also related to the goals that it wish to accomplish by applying related procedures.
In relation to the audit execution, Jun and Lin (2009) stated that, recently there have been audit failures resulting from the unreported deviation in audit reports. Arens et al. (2012) stated that audit failures take place when auditors deliver inaccurate audit opinion in as much as not meeting the established audit standards.

In the event of audit failure cases as exemplified by the audit failure in Kanebo, Japan caused by the conspiracy of auditors in Chu Aoyama public accountant office affiliated with Price water house (PWC), one of the big four public accountant offices as well as the executive of Kanebo company (Skinner and Sriniayasan, 2011). The case in Kanebo illustrated the audit execution that does not meet auditing standards, results in poor audit quality. Such case is in contrast to the standards remarked by Boyton et al. (2006) in which audit quality should refer to standards constituting the criteria and quality standards of the execution, therefore, there is gap between the actual audit execution and the appropriate audit. Cheng et. al. (2009) remarks that audit quality is one of the most widely discussed topics in audit profession. Vanstraelen (2000) state that, audit quality is the ability of auditor to detect and report material misstatement in the investigated sample during auditing process, furthermore, he claims that public auditor is not only demanded to detect but also to report occurring material misstatement. When such measures are taken, auditing process is considered more effective and of high quality. This is in line with Richard (2006) stating that, audit quality is a balance between the auditor’s competence and independence. The importance of independent attitude of the auditor is pointed out by Moore et al. (2006) by referring to a number of auditing scandals in the United States including in Enron Corp. WorldCom and several public companies in 2001 and 2002 which overlooked independence and triggered audit failure.
In short, it can be concluded that audit quality constitutes the ability or expertise of auditors to identify and report significant material misstatement in the client financial report. There are factors determining the ability of competence. These factors are implemented as the indicators of auditing quality in this study.

2.3.4 Non Audit Services

Non audit services can be defined as those services that are provided by auditors which are not in relation to audits. (Salehi et al, 2009). They are also professional services provided by a qualified public accountant during the period of an audit engagement which are not connected to an audit or review of an institution’s financial statements.

As the demand for business expert services grew over the late 20th century, public accounting firms expanded the scope of their services to include corporate and individual tax planning, internal audit outsourcing, and consulting related to mergers and acquisitions, information systems, and human resources. It is found that auditors believe that the auditors’ work would be used as a guide for investment, valuation of companies, and in predicting corporate failure; furthermore, the third party felt that there is a strong relationship between the reliability of the auditor’s work and the investment decision. Also the auditor’s work facilitates the process of economic development through the presentation of reliable information concerning the financial position of the companies (Wahdan et al. 2005). Today’s public accounting firms have undergone dramatic changes in the last 25 years. Over the last decade the proportion of the revenue of large public accounting firms which were derived from providing NAS grew from 12 percent to 32 percent (Public Oversight Board 2000), suggesting that the economic bond between auditors and their clients strengthened over this time as auditors delivered more consulting-oriented services to their audit clients.
2.4 Ghana’s Companies Code, 1963 (Act 179) and the Auditor

In 1963, the companies’ code was promulgated by an Act of Parliament (Act 179 of 1963). It deals with the primary law concerning the preparation, audit and presentation of financial statements by all companies in Ghana, both private and public. Section 134 of the companies act deals with the appointment an auditor by a company. Section 136 (1) of the companies code provides, “the auditors of a company while acting in performance of their duties under this Code shall not be deemed officers or agents of the company, but shall stand in a fiduciary relationship to the members of the company as a whole and shall act in such manner as faithful, diligent, careful, and ordinarily skillful auditors would act in the circumstances.”

From the above, it can be deduced that the auditor must be independent, honest and exhibit professional skepticism while performing or executing his responsibility. Section 136 (7) of the companies code stipulates, “The auditors, in addition to their statutory duties to the members under subsection (1) of this section, may, under the terms of their contract with the company, expressly or impliedly undertake obligations to the company in relation to detective of defalcations, and advice on accounting, costing, taxation, raising of finance and other matters.”

This section postulates that the Ghanaian auditor has the freedom to offer non audit consultancy services like management services, tax planning, receivership and many others aside the primary responsibility of offering auditing and assurance services.

Bondzi-Simpson (2009) is of the opinion that, by performing these additional functions, the auditor may place himself in a conflict of interest situation because he/she will end up, in some cases, having to audit the financial performance of the company in light of the soundness of the advice he has given.
2.5 Empirical Literature on Auditors’ Independence and Audit Quality

The auditor should be independent from the client company, so that the audit opinion will not be influenced by any relationship between them. The auditors are expected to give an unbiased and honest professional opinion on the financial statements to the shareholders.

Doubts are sometimes expressed regarding the independence of external auditors. It can be argued that unless suitable corporate governance measures are in place, a firm of auditors may reach audit opinions and judgments that are heavily influenced by the wish to maintain good relations with the client company. If this happens, the auditors can no longer be said to be independent and the shareholders cannot rely on their opinion.

Accounting firms sometimes engage set audit fees at less than the market rate and make up for the deficit by providing non-audit services, such as management consultancy and tax advice. As a result, some audit firms have commercial interests to protect too. This raises concerns that the auditor's interests to protect shareholders of a company and his commercial interests may conflict with each other.

A high profile example would be the relationship between Enron and their auditors, Arthur Andersen. In 2000, Andersen received $27m for non-audit services, compared with $25m for audit services, meaning Enron accounted for over 25% of the fees generated by the firm’s Houston office. In the aftermath of Enron’s demise, the accounting firm was accused of not acting independently and suggestions were made that they had gone along with the accounting practices in Enron in order to retain their work.

The significant influence of auditor independence towards audit quality reflects that the auditor has an absolute attitude that needs to be maintained, which is independence. Such attitude keeps the auditor in the right track in performing their practices and maintaining an image as a group.
that carries the people’s trust to enhance the credibility of financial reports produced by companies. In terms of audit fees, optimal audit fees provide audit quality reassurance since the auditing procedures require a long period of time and highly experienced and skilled staff. Thus, in order to produce high quality audit requires efforts both from the public auditor and optimal audit fees.

Several researchers have studied the relationship between audit fees and audit quality. Among others are Elitzur and Falk (1999) claiming that the higher is the audit fee, the higher quality of the auditing processes administered. Such result reflects that fees describe the effort the auditor has put in to provide the best performance. Carcello and Nagy (2004) argues that one of the factors affecting audit fees is the risks involved; when the auditor deals with a client with a high risk, the auditor will charge higher audit fees and add the auditing time to be able to magnitude the monitoring force (Watkins et al., 2004).

Choi et al. (2009) conducted a further study on audit fees in companies listed in stock market and owning a strong legal force. They concluded that stronger legal force boosts higher quality audit and the shareholders are willing to spend higher audit fees to obtain the benefit of the value of high quality audit. The two studies support the influence of audit fees towards audit quality.

Furthermore, Ghosh and Pawlewicz (2008) claim that there are several things causing positive relationship between audit fees and audit quality, i.e. the offered fees will be high if the auditing procedures require longer auditing time and involve highly skilled and experienced staff. Therefore, high quality audit involves higher audit fees.

Christiawan (2003) states that audit quality is determined by two things: the competence and independence. In performing the audit assignment, the auditor must be independent in carrying out the audit program, the independence of the verification and independence in reporting
(Mautz and Sharaf, 1993). Arens et al (2003) also suggested that auditors should be independent in terms of mental attitude and thinking (independence in fact / mind) and appearance (independence in appearance). In fact, auditors often find it difficult to maintain an independent mental attitude. (Mulyadi, 2002) concluded in his research that circumstances that often interfere with the independent auditor's mental attitude is as follows:

- As an independently conducted the audit, the auditors are paid by the client for his services.
- As a seller of services auditors often have a tendency to satisfy the desires of their clients.
- Maintaining an independent mental attitude can often cause loss of clients.

Trotter (1986) in Murtanto (1999) defines that a competent person is a person with the skills to do the job easy, fast, and intuitive and very rarely or never make mistakes. In line with the opinion of Trotter, Bedard (1986) in Sri Lastanti (2005) also defines competence as someone who has the knowledge and procedural skills are demonstrated in extensive audit experience. Meanwhile Sukrisno Agoes (2007) argues that the attainment of expertise begins with formal education, which in turn required experience in the audit practice. In addition, internal auditors must undergo adequate technical training covering the technical aspects as well as general education.

Research related to quality audit conducted by Carcello and Nagy (2004), JR Francis (2004) in which the result indicated that auditor independence have effect on audit quality. Similarly, research conducted by Widagdo, et al (2002) show that the independence of the auditor has a significant effect on audit quality. This research was supported by a JP Percy (2007) research which concluded that, audit quality is affected by the independence of the auditor, without the auditor independence, audited financial statements will not be qualified. Furthermore, the results
of a research conducted by Duff (2004) indicated that, audit quality is affected by four dimensions, one of which is the independence of the auditor.

Similarly, Samelson, et al (2006) also finds out that independence is one of the factors that affect the quality of the audit. Cheng, et al (2002) research's showed that auditor competence has a significant effect on audit quality. The auditor's competence can be seen from the knowledge and attitudes and ethical behavior. Indicators used in relation to knowledge are education, expertise, skills and experience. Kaplan and Reckers (1989) suggested that the competence of auditors greatly affect the quality of the audit. A similar sentiment was expressed by Hackenbrack et al (2000) where competence auditor has effect on audit quality. Further Jensen and Payne (2003) showed the influence of auditor competence through experience of auditors on audit quality. Bonner and Lewis (1990) suggest that knowledge of the specific tasks will help the experienced auditor performance through component selection and weighting of the evidence only when they determination of the analytical risk.

Furthermore Choo and Trotman (1991) provide empirical evidence that more experienced auditors will be able to determine the items that are not common (atypical) than less experienced auditors. But they do not have any different to determined common items (typical). A similar study conducted by Tubbs (1992) showed that subjects who have more experience would find more errors and mistakes items than auditors who have less experience. This is confirmed by Lowensohn, et al (2005) research who showed that competence (experience) very influential auditors on audit quality. Several previous studies have shown conflicting results regarding the quality of the audit and audit tenure. Gosh and Moon (2003) found that audit quality increases with the length of audit tenure.
Associated with long tenure, Deis and Giroux (1992) found that the longer the audit tenure, audit quality will decrease. Al-Thuneibat et al. (2011) found that the long relationship between the auditor and the client has the potential to create closeness between them, enough to impede auditor independence and reduces audit quality. Contrary to Al-Thuneibat et al (2011), Jackson et al. (2008) found that audit quality will increase associated with the length of the auditor-client relations.

CHAPTER THREE

METHODOLOGY

3.0 Introduction

This chapter focuses on the method chosen for this study. Also, discussion of the research design, sampling techniques, the estimated method and the sources of data for this study would be considered in this chapter. Moreover, the various variables used for the study are defined with their measurement.

3.1 Research Design

The objective of the study is to examine the relationship between auditors’ independence and the quality of an audit in banks in Ghana. It also provides a description and analysis of the methods applied in collecting and preparing the data deemed necessary to test for the existence of the relationship that exist between auditors’ independence and the quality of audit. This study will therefore be designed within the basis of quantitative research approach. The approach was selected because the variables used in the study were measured using quantitative data from the sampled banks annual reports. The measurement of the dependent variable (auditors’ independence) will be demonstrated. Then, a full description of how each of the independent variables will be measured and a model will be developed and stated. This study categorizes the
independent and control variables into five namely: type of audit firm (big four audit firm), change in receivables, total assets, property plant and equipment (PPE) and change in revenue and this is followed by a description of how these variables are measured. Also, this chapter discusses the sample selection and the selection process. Finally, a summary of the variables and models of the study will be presented. The results deriving from those choices will be presented in the next chapter.

3.2 Population

The target population of the study is the twenty eight (28) banks in Ghana who are bound to provide audited financial statements certified by an auditor according to the companies’ code of Ghana. Out of this sample, only nine would be considered for this study because the information needed for this study may not be available for the others.

3.3 Sample Technique and Sample Size

Purposive sampling technique was adopted in this study. Purposive sampling is also called deliberate sampling or judgment sampling (Gupta, 1993). According to Marlow (2001) in purposive sampling, the researcher is allowed to handpick the sample according to the nature of the research problem and the phenomenon under study. While as Shaughnessy and Zechmeisner (1990) further commented that purposive sampling method is adopted when the respondents are selected or judged to have certain characteristics or more commonly those who are likely to provide the most useful information for the purpose for which the study is being done. The sample of the study involved only banks that publish their annual reports. Out of this sample, only nine (9) banks will be selected and considered for this study.
3.4 Source of Data

For the purpose of this study, secondary data would be used. Secondary data are those which have already been collected by some other agency and individuals which have already been processed into information to satisfy some other needs.

The secondary data were derived from extensive library and Internet research for the review of relevant literature and conceptual framework on the area of study. Quite a number of the literature was based on foreign experiences of the private sector and also journals, publications, articles and newspapers, research papers based on Ghanaian experiences. Secondary data would be gathered through analyzing the annual report of the company over a period of six years (2008 to 2013). These data were obtained from the selected banks’ annual report. All information was found in the annual report.

3.5 Description of Variables and Measurements

This section aims at defining variables used in the study. The dependent, independent, and the control variables are defined accordingly in order to examine the relationship between auditors’ independence and audit quality.

3.5.1 Dependent Variables

The dependent variables in this study are variables that are used to measure the auditor’s independence of the selected banks in Ghana. The dependent variable is auditor independence, defined by (Lu, 2005) as the refusal of the auditor to support any detected misstatement and standing against client’s attempts to influence his audit report. To measure the independence of the banks’ external auditors, audit fees of the banks were used which is consistent with Bondzi-Simpson (2009) where he believed that the amount paid to auditors determine their level of independence.
3.5.2 Independent Variables

The independent variables are variables that stand alone and it isn’t changed by the dependent variable. They are tested to find out if they are the cause of any change in the dependent variable. In this study, the independent variables are the determinants of audit quality in the sampled banks in Ghana. The independent variables are audit firm type and property plant and equipment. Audit firm type is used to measure audit quality because it is presumed that an audit work done by the big four audit firms are of quality. Property, Plant and Equipment is used to measure the amount of audit work done in the company because the mismanagement of it will call for more audit. Their definitions and measurements are in table 1 below.

3.5.3 Control Variables

Control variables are variables that may affect or influence the dependent variable besides the independent variables. In this study, the control variables selected are change in receivables, change in revenues and total assets of the sampled banks. This is because empirical evidences suggest that, they are significant factors determining audit fees (Bondzi-Simpson, 2009).
3.6 Model Specification

The objective of this study is to examine the relationship that exists between auditors’ independence and the quality of an audit in banks listed in Ghana. To achieve this objective, a functional relationship is designed and presented in form of regression equation. The regression equation was used in defining the statistical relationship between auditors’ independence and audit quality of the listed banking firms in Ghana. A control variable was presented to the regression equation to take care of the different in sizes of the sampled banks since the study used panel data analysis (which is the combination of time series and cross-sectional data). The control variables introduced was total assets which were measured by natural logarithm and change in receivables and revenues. The logarithm was employed to normalize the data and make them fit into the regression equation.

The general models for the study are:

\[ Y_{it} = \infty + \sum \beta X_{it} + \epsilon_{it} \]  \hspace{1cm} (Eq. 1)

\[ Y_{it} \]: auditor’ independence of banks i at fiscal year t audit fees

\[ \infty \]: The intercept of equation,

\[ \beta \]: Coefficients of \( X_{it} \) variables,

\[ X_{it} \]: The different independent variables for audit fees for bank i at fiscal year t,

\[ i \]: 9 = 1- 9 banks,

\[ t \]: Time= 1,2,3,4,5,6 years,

\[ \epsilon \]: The error term

Therefore, the following model will be used for the study;

\[ ADF_{it}=\infty+\beta_1 AF_{it}+\beta_2 CHREC_{it}+\beta_3 CHREV_{it}+\beta_4 PPE_{it}+\beta_5 TA+\epsilon_{it} \]  \hspace{1cm} (Eq.2)
3.7 Variable Description

Table 1: Definition of Variables (Proxies)

<table>
<thead>
<tr>
<th>Variables</th>
<th>Definition and measurement of variables</th>
</tr>
</thead>
<tbody>
<tr>
<td>AF</td>
<td>Audit Firm – this is the type of audit firms that audit the banks and it is to check whether the banks are audited by one of the Big Four audit firms or not. The Big Four audit firms are: Ernest &amp; Young, Price water house Coopers, Deloitte &amp; Touche and KPMG. If the sample bank is audited by one of the Big Four audit firms, it is represented by 1 and 0 otherwise.</td>
</tr>
<tr>
<td>ADF</td>
<td>Audit Fees - This is the amount of money paid to external auditors of the banks. It was measured using natural logarithm of audit fees of the banks.</td>
</tr>
<tr>
<td>CHREC.</td>
<td>Change in Receivables –measured by current year’s receivables minus previous year’s receivables divided by previous year’s receivables.</td>
</tr>
<tr>
<td>CHREV.</td>
<td>Change in Revenues – revenue is the net operating income of the banks and was measured by the natural logarithm. It was calculated by current year’s revenue minus previous year’s revenue divided by previous year’s revenue.</td>
</tr>
<tr>
<td>PPE</td>
<td>Property, Plant and Equipment – measured using natural logarithm of property plant and equipment of the banks.</td>
</tr>
<tr>
<td>TA</td>
<td>Total Assets – measured using natural logarithm of total assets of the banks.</td>
</tr>
</tbody>
</table>
3.8 Methods of Data Analysis

To enable the researcher perform a good analysis, the STATA 9 package was extensively used for this study. This helps summarize the findings as well as present the finding in tables and figures.

Descriptive, correlation and panel linear regression data analysis method were employed. The descriptive statistics was used to quantitatively describe the important features of the variables using mean, maximum minimum and standard deviations. The correlation analysis was used to identify the relationship between the independent, dependent and control variables using Pearson correlation analysis. The correlation analysis shows only the degree of association between variables and does not permit the researcher to make causal inferences regarding the relationship between variables (Marczyk et al., 2005). Therefore, panel linear regression analysis was also used to explain the relationship between audit fees and audit firm type and property plant and equipment.

3.9 Banks profile

CAL BANK

Currently the most innovative indigenous Ghanaian Bank in Ghana, CAL Bank formerly Continental Acceptances Ltd and CAL Merchant Bank commenced operations in July 1990, providing world class financial solutions to the Ghanaian banking sector. CAL Bank received its Universal Banking License in 2004 and soon commenced providing specialized retail banking services. With its highly skilled professional staff who emphasizes the delivery of efficient and excellent customer services, CAL Bank Limited continues to provide a broad range of banking and financial solutions to large corporations, small and medium-sized enterprises, public sector institutions and retail customers through a network of 19 branches and over 60 offsite ATMs
across Ghana. At CAL Bank, our promise is to deliver services you can always bank on. Our customer-centric approach in our service delivery is underpinned by the bank’s ethos of customer delight. It is out of this that the slogan ‘Bank on our service’ continuously drive the bank to play an important role in the Ghanaian financial sector by providing total banking services to personal, commercial and corporate clients in Ghana and beyond.

Mission

We aspire to be a financial services institution of preference through delivery of quality service, using innovative technology and skilled personnel to achieve sustainable growth and enhanced stakeholder value. The Bank's vision is to be a leading financial services group creating sustainable value for our stakeholders.

UT BANK

UT was issued with its Universal Banking License on June 28th 2006, making it the 22nd bank to be licensed by the Bank of Ghana. The Bank is owned by Ghanaian and Foreign individual and institutional investors including ADB and SSNIT, and also by its Executives. The Bank was formerly Fidelity Discount House, the leading discount house in Ghana. After operating profitably for 8 years, the business environment in the country drew investors to the idea of establishing a bank.

UT Bank has a team of high caliber staff with diverse skills and experience. We continue to invest heavily in technology and training to ensure that we are at par with the best in the industry. To ensure the relevance of our comprehensive range of products and services, we continually review the demographics of our customer segments to ensure that our offerings meet the banking and financial needs of existing and potential customers. UT Bank’s vision is to become a world-class financial institution that provides superior returns for all stakeholders.
With People who are professional and proactive, state of the art Technology, exceptional Corporate Governance Standards, good knowledge of the Local Market, Financial Capital and above all, a Customer-Centric Culture, UT Bank is contributing its quota to the development of the banking industry and by extension the Ghanaian economy.

**FIDELITY BANK**

Fidelity Bank was issued with its Universal Banking License on June 28th 2006, making Fidelity Bank Limited, the 22nd bank to be licensed by the Bank of Ghana under the new Banking Act, 2004 (Act 673). The Bank is owned by Ghanaian individual and institutional investors including ADB and SSNIT, and also by its staff. The Bank was formerly Fidelity Discount House, the leading discount house in Ghana. After operating profitably for 8 years, the business environment in the country attracted investors to the idea of establishing a bank. Fidelity Bank has a team of high caliber staff with diverse skills and experience. The Bank has invested heavily in technology and continues to invest heavily in training to ensure that it is at par with the best in the world. Fidelity Bank offers a comprehensive range of products and services to meet the banking and financial needs of existing and potential customers. Fidelity Bank has two corporate affiliates: Fidelity Capital Partners Limited (FCPL), and Fidelity Asset Management Limited (FAML).

Fidelity Capital Partners Limited (FCPL) is the leading venture capital and private equity fund manager in Ghana and manages the Fidelity Equity Fund 1.

Fidelity Asset Management Limited (FAML) is an Asset Management and Investment firm. The main objective of FAML is to create value for personal as well as corporate investors by investing in the Capital and Money markets. Their expertise is in Provident Fund Management.

**Vision**
Fidelity Bank’s vision is to become a world-class financial institution that provides superior returns for all stakeholders as follows:

Our customers: The best place to bank.

Our shareholders: The best place to invest.

Our employees: The best place to work.

Our regulators: The best place to benchmark.

With strong people, technology and financial capital, Fidelity Bank is looking forward to active participation in the banking industry locally.

**Mission**

To be amongst the top five banks in Ghana by December 2012, based on all key performance indicators: deposits, fees, quality of loan book, cost to income rate, and anchored on three key pillars - our people, our service and processes, and return to stakeholders.

This will be premised on its exceptional Corporate Governance Standards’, knowledge of the local market, professionalism, proactivity, innovation and above all its customer-centric culture. This will contribute positively to the development of the industry and by extension the Ghanaian economy.

**STANDARD CHARTERED BANK**

Standard Chartered Bank Ghana Limited traces its roots to 1896 when it existed as Bank of British West Africa. It was indeed the first bank to operate in Ghana and it also acted as the central bank in those days. The bank’s name was changed to Bank of West Africa after Ghana’s Independence and later on changed again to Standard Bank Ghana Limited.

The bank was licensed as a limited liability company on September 18, 1970 and later became a public company in 1971. After the Standard Bank and Chartered Bank (both of UK) merger,
Standard Bank Ghana Limited automatically became a member of the Standard Chartered Group.

Banking and other related services are the company’s main business. SCB was provisionally listed on the GSE on November 12, 1990 and its official list was on August 23, 1991. Stanchart has 100 million authorized shares. It has 17.6 million ordinary shares and 17.5 million preference shares, SCB has a stated capital of GH¢ 13.13 million. Standard Chartered Holdings Africa B V (Holland) owns 66.50% ordinary shares and 87.60% preference shares in SCB.

**Vision**

To be the preferred provider of Leasing Products in the Market.

**Mission Statement**

To create exceptional value for our clients, investors and staff; through market leadership in providing innovative Leasing Products & Solutions, and by adopting and living our core values.

**PRUDENTIAL BANK**

Prudential Bank Limited (PBL) is a private limited liability company incorporated in Ghana under the Companies Code, 1963 (Act 179). The company is domiciled in Ghana with its registered office at No. 8 Nima Avenue, Kanda, Ring Road Central, Accra. The Bank is licensed to carry on the business of banking and to provide ancillary services. The Bank has two wholly owned subsidiary companies, both incorporated in Ghana - PBL Properties Limited and Prudential Securities Limited.

PBL Properties Limited was established to acquire and develop banking premises for the Bank and also manage the auxiliary staff and facilities. Prudential Securities Limited on the other hand, is engaged in stockbrokerage, fund management, corporate finance and business advisory services as well as equity and economic research.
Vision
To be a successful indigenous and the preferred Bank in Ghana offering the most remunerative banking services to the public.

Mission
To provide domestic and international banking services with a strategic focus on project financing, trade financing, export development and SME financing. PBL is committed to playing a positive and innovative role in the financial intermediation process and, most importantly, to offer the best banking services to the business community.

ECOBANK GHANA
Ecobank Ghana (EGH) was incorporated on January 9, 1989 as a private limited liability company under the Companies Code to engage in the business of banking. EGH was initially licensed to operate as a merchant bank by the Bank of Ghana on November 10, 1989 and commenced business on February 19, 1990. However, following the introduction of Universal Banking by the Bank of Ghana in 2003, EGH, true to its form as a pacesetter, became the first bank to be granted the universal banking license from the Bank of Ghana. The bank is a subsidiary of Ecobank Transnational Incorporated (ETI), a bank holding company which currently has thirty-one (31) subsidiaries across Middle Africa. The Ecobank Group is thus in more countries in Africa than any other bank, making it the leading regional banking group in Middle Africa. EGH has grown consistently over the years to become one of the leading banks in Ghana and a well-recognized brand in the Ghanaian banking industry. EGH acquired a universal banking license in 2003 and got listed on the Ghana Stock Exchange (GSE) in July 2006. The Bank has embarked on a medium term strategic shift from a predominantly Wholesale Bank to Retail Bank, and 2008 marked the third year of its strategic transformation.
The Bank’s Mission & Vision

EGH’s mission is to become a strategic part of a world-class African banking group. The bank’s vision is to provide its customers convenient, accessible and reliable banking products and services.

In line with this, EGH seeks to create a unique African institution characterized by a determined focus on customers, employees and shareholders and an absolute commitment to excellence in the financial services industry. The bank seeks to pursue this mission and uphold its values by applying the following principles to its business decisions and conduct:

- Treat each customer as a preferred customer.
- Invest in training and development of its staff.
- Deliver product and service quality which exceed customer expectations.
- Develop markets and products in which it can reach and maintain competitive advantage.
- Deliver appropriate returns to its shareholders.
- Maintain high standards of ethics and compliance at all times.

GUARANTY TRUST BANK

Guaranty Trust Bank (Ghana) Limited, Bank of the Year for two consecutive years in 2009 and 2010, was registered in Ghana in October 2004 and obtained its universal banking license from the Bank of Ghana on 23rd February, 2006, thereby paving the way for the commencement of operations. The Bank is a subsidiary of Guaranty Trust Bank Plc., one of the foremost banks in Nigeria with a Triple A rating; the first indigenously owned sub-Saharan bank to be quoted on the London Stock Exchange. In 2008, GT Bank Plc. became the first new generation indigenous African bank to obtain a banking license to carry out fully fledged commercial banking activities in the United Kingdom.
GT Bank Plc., currently owns 95.37% of the issued share capital of Guaranty Trust Bank (Ghana) Limited, with Nederlandse Financierings-Maatschappij Ontwikkelingslanden N.V. (FMO) holding 2.60% and Alhaji Yusif Ibrahim, a Ghanaian business entrepreneur, holding the remaining 2.03%. Presently, Guaranty Trust Bank (Ghana) Limited’s shareholder’s funds is in excess of GHS144 million, thus, providing the Bank with a competitive advantage in terms of business capacity and the readiness to handle relatively big-ticket transactions. Due to its consistency in building a strong, profitable and respectable brand in Ghana, GT Bank within the seven years of its operations in the country, has grown to become a reference point for good business practice and a role model in the financial services industry.

The Bank is built on the strengths of its staff, its structures, policies and procedures. As a principle and due to its preparedness to invest and develop the country’s human capital, all of its staff members totaling 581 are Ghanaian except three Nigerians. The Bank also has an open door policy, thus reinforcing an informal atmosphere that breeds a feeling of equality. Everyone is accessible and approachable, working in open offices alongside their colleagues. In addition, we have a flat organizational structure that engenders effective communication and prompt decision-making.

As recognition of GT Bank’s leverage on its robust IT infrastructure to roll out customized e-banking products and services, it has been awarded as the Best Bank in IT / Electronic Banking, also for two consecutive years in 2009 and 2010. In August 2011, aside being awarded (for the second year running) as Bank of the Year 2010 during the Ghana Banking Awards ceremony held in Accra.

**UNITED BANK OF AFRICA**
United Bank for Africa (UBA) Plc. is a leading financial service group in Sub-Saharan Africa with presence in 19 African countries, as well as United Kingdom, United States of America and France. The origin of UBA dates back to 1949 when it was first referred to as the British and French Bank Limited (BFB). It took over the assets and liabilities of BFB and was incorporated as a limited liability company on 23 February, 1961 under the Compliance Ordinance (Cap 37) 1922. UBA was the first Nigerian bank to make an Initial Public Offering (IPO), following its listing on the NSE in 1970. It was also the first bank to issue Global Depository Receipts (GDRs). In 2005, it completed one of the biggest mergers in the history of Nigeria’s capital markets with the business combination with Standard Trust Bank (STB) Plc. From then, it commenced its pan African expansion strategy, which has led to its presence in Ghana, Benin Republic, Cote d’Ivoire, Burkina Faso, Guinea, Chad, Cameroon, Kenya, Gabon, Tanzania, Zambia, Uganda, Liberia, Sierra-Leone, Mozambique, Senegal, Congo DR and Congo Brazzaville. It is a publicly quoted company listed on the Nigerian Stock Exchange (NSE) and has a well-diversified shareholder base.

Vision
To be the undisputed leading and dominant financial services institution in Africa.

Mission
To be a role model for African businesses by creating superior value for all our stakeholders, abiding by the utmost professional and ethical standards, and by building an enduring institution.

Who we are
UBA Plc. is a leading financial service group in Sub-Saharan Africa with presence in 19 Africa countries as well as United Kingdom, United States of America and France. With the Bank’s migration from universal banking to the monoline commercial banking in line with regulatory requirement, UBA now provides commercial banking and pension custody services to its corporate, commercial and retail customers.

**What we do**

With the Bank’s migration from universal banking to monoline commercial banking in line with regulatory requirement, UBA provides commercial banking, pension custody and other financial services to its more than 7.2 million corporate, commercial and retail customers through its channels, strategically located in the 19 African countries, United States of America, United Kingdom and France.

**ZENITH BANK**

Zenith Bank (Ghana) Limited (“Zenith”), a financial provider, was incorporated in April 2005 under the Banking Act 2004 (Act 673) as a private limited company and commenced universal banking operation in September 2005. It is a subsidiary of Zenith Bank Plc., one of the largest banks in Nigeria by all measures, with Fitch credits the rating of +B in 2013.

Over the years, the Zenith brand has been synonymous with its cutting edge ICT platform which sets it apart from competitors, passionately innovative staff and devotion to the development of systems and products to meet customer requirements.

The bank’s main service delivery channels include twenty eight (28) business offices (branches and agencies) as well as numerous ATMs and Point of Sales’ terminals strategically located in various cities and towns countrywide. Zenith also offers real-time internet and mobile banking
services on-the-go. Our main objective for these delivery channels is to make banking easier, faster and better than anything our customers have ever experienced.

Within these eight years of our existence, we have brought dynamism and panache to the Ghanaian banking industry. We have over the years improved our capacity, size, and market share and industry rankings in all parameters. We have built financial, structural and technological muscle and have established our presence across the country. Today, Zenith Bank (Ghana) Limited is an epitome of a stable and strong organization with a brand and customer service which is the envy of its peers.

**Vision**

“The vision of the Bank is "to be a reference point the provision of prompt, flawless and innovative banking services in the Ghanaian bank industry".
CHAPTER FOUR
RESULTS AND DISCUSSION

4.0 Introduction

This chapter brings out the descriptive statistics, correlation analysis and linear regression analysis of the study variables. There are three segments. Firstly, the descriptive statistics which summarizes the main features of the study variables such as mean, maximum, minimum and standard deviation. The other segment, talks about the correlation analysis which shows the degree of association between the study variables. The third segment shows the regression results and report the GLS estimation output of the three regression models.

4.1 Normality Test

Table 2: Test for Normal Distribution of the Continuous Variables-Shapiro-Wilk

<table>
<thead>
<tr>
<th>Variables</th>
<th>Statistics</th>
<th>Prob.</th>
</tr>
</thead>
<tbody>
<tr>
<td>AF</td>
<td>3.553</td>
<td>0.00019</td>
</tr>
<tr>
<td>ADF</td>
<td>-3.014</td>
<td>0.99871</td>
</tr>
<tr>
<td>CHREC.</td>
<td>2.747</td>
<td>0.00301</td>
</tr>
<tr>
<td>CHREV.</td>
<td>5.807</td>
<td>0.0000</td>
</tr>
<tr>
<td>PPE</td>
<td>5.046</td>
<td>0.0000</td>
</tr>
<tr>
<td>TA</td>
<td>4.761</td>
<td>0.0000</td>
</tr>
</tbody>
</table>
A test for normality was run for all the variables used in this study. The idea behind the test was to secure approximation of data to normal distribution. Shapiro-Wilk (S-W), a parametric test, was used. That is, to determine whether the data has passed the normality test or not. This was based on the decision to accept the null hypothesis that the data follow normal distribution if the probability of the S-W test was more than 0.05 (Gujarati, 2003). Therefore, it is to be noted that when probability is 0.05 or more ((p > 0.05), then it means the data has passed the assumption of normality test. On the other hand, when probability is 0.05 or less (p < 0.05), it means the data has failed the assumption of the normality test.

From table (2) above, all the variables except ADF (AF, CHREC, CHREV, PPE AND TA) failed the assumption of normality test. That is, their probability is less than 0.05 which are 0.0019, 0.00301, 0.0000, 0.0000 and 0.0000 respectively. The variable ADF passed the normality test because its probability was more than 0.05 which was 0.99871. This means that the data was not normally distributed. In solving this problem, the natural logarithm for these variables was considered. Because sample size was quite big, not distributing the data normally may not influence credibility of the study. The estimation method of ordinary least square (OLS) used to analyze the sample data would produce a bias result since the data distribution of these variables are not normally distributed. Hence, the generalized least square (GLS) method of estimation is more appropriate and it is expected to yield a much better outcome (Gujarati 2003).
4.2 Analysis of Descriptive Statistics Results

Table 3: Descriptive Statistics of the Study

<table>
<thead>
<tr>
<th>Variables</th>
<th>Mean</th>
<th>Std. Dev.</th>
<th>Minimum</th>
<th>Maximum</th>
</tr>
</thead>
<tbody>
<tr>
<td>AF</td>
<td>0.8148148</td>
<td>0.3920952</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>ADF</td>
<td>5.010926</td>
<td>0.2521026</td>
<td>4.4</td>
<td>5.65</td>
</tr>
<tr>
<td>CHREC.</td>
<td>0.478037</td>
<td>0.504164</td>
<td>-0.91</td>
<td>2.21</td>
</tr>
<tr>
<td>CHREV.</td>
<td>0.6009259</td>
<td>0.9633301</td>
<td>-0.91</td>
<td>5.07</td>
</tr>
<tr>
<td>PPE</td>
<td>5.48537</td>
<td>1.342823</td>
<td>3.65</td>
<td>7.45</td>
</tr>
<tr>
<td>TA</td>
<td>6.976111</td>
<td>1.310135</td>
<td>5.11</td>
<td>9.28</td>
</tr>
</tbody>
</table>

Table 3 shows the central tendencies of the variables used for the study which is mean (average), standard deviation, minimum and maximum.

On average, audit firms (AF) of the banks are 81.48% with a standard deviation of 36.21% from the average value and a minimum and maximum value of 0 and 1 respectively. This means that, on the average, most of the banks are being audited by the Big Four Audit Firms. Therefore, it is assumed that the audit work is of quality and can be relied on by users.

Averagely, the audit fees (ADF) of the banks is 5.011 with a standard deviation of 0.252 from the average value and a minimum and maximum value of 4.4 and 5.65 respectively.

The average change in receivables (CHREC) for the banks is 0.478 with the standard deviation of 0.504 from the average and minimum and maximum value of -0.91 and 2.21 respectively. The
banks’ receivables are the loans, overdrafts and credits to customers which are to be received within an accounting year.

Change in revenue (CHREV) as measured by the banks’ net operating income gave a mean of 0.601 with a standard deviation of 0.963 and a minimum and maximum of -0.91 and 5.07 respectively. This means that on the average 60% of the sample banks changes in revenues over the years.

On the average, the property plant and equipment (PPE) of the banks is 5.485 with the standard deviation of 1.342 with the minimum and maximum of 3.65 and 7.45 respectively.

Averagely, the total asset (TA) of the sample banks is 6.976 with the standard deviation of 1.310 and minimum and maximum of 5.11 and 9.28 respectively.

4.3 Correlation analysis of the Study Variables

Table 4: Correlation matrix

<table>
<thead>
<tr>
<th></th>
<th>AF</th>
<th>ADF</th>
<th>CHREC.</th>
<th>CHREV.</th>
<th>PPE</th>
<th>TA</th>
</tr>
</thead>
<tbody>
<tr>
<td>AF</td>
<td>1.0000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ADF</td>
<td>0.0151</td>
<td>1.0000</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CHREC.</td>
<td>0.0236</td>
<td>-0.3004</td>
<td>1.0000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CHREV.</td>
<td>0.0239</td>
<td>-0.0764</td>
<td>0.4112</td>
<td>1.0000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>PPE</td>
<td>-0.3374</td>
<td>-0.0840</td>
<td>0.2568</td>
<td>0.1799</td>
<td>1.0000</td>
<td></td>
</tr>
<tr>
<td>TA</td>
<td>-0.1296</td>
<td>-0.0808</td>
<td>0.2684</td>
<td>0.2684</td>
<td>0.8927</td>
<td>1.0000</td>
</tr>
</tbody>
</table>
The correlation matrix shows the relationship between the variables. In the identification of the relationship between audit quality and independence of auditors, Pearson correlation coefficient was used. The above correlation matrix shows the relationship between the dependent variable and the independent variables. This table also shows the linear relationships between each independent variables and control variables used in this study.

The results in table 4 above report that, the Pearson correlation coefficients of audit fees, change in receivables and change in revenues had a positive relationship with audit firm type at 1.51%, 2.36% and 2.39% respectively. From this, it can be understood that audit fees, change in receivables and change in revenues have weak association or no correlation at all with audit firm type. On the contrary, the correlation coefficient of property plant and equipment and total assets showed a negative relationship with audit firm type at 33.74% and 12.96% respectively. Resulting from this relationship level, property plant and equipment and total assets have a relatively weak relationship with audit firm type.

Again, from the table, the correlation coefficient of change in receivables, change in revenues, property plant and equipment and total assets showed a negative association audit fees at 30.04%, 7.64%, 8.4% and 8.08% respectively. The level of association shows that there is a very low or no association at all between audit fees and change in receivables, change in revenues, property plant and equipment and total assets.

According to the table, the correlation coefficient of change in revenues, property plant and equipment and total assets presented a positive relationship with change in receivables at 41.12%, 25.68% and 26.84% respectively. For this, it can be noted that change in revenues have an average relationship with change in receivables whiles property plant and equipment and total assets have a relatively strong relationship with change in receivables.
The correlation coefficient of property plant and equipment and total assets exposed a positive relationship with change in revenues at 17.99% and 26.84% respectively. This denotes that there is a weak relationship between property plant and equipment and total assets with change in revenues.

Lastly, the correlation coefficient of total assets presents a positive relationship with property plant and equipment at 89.27%. This means that there is a significantly strong relationship between total assets and property plant and equipment and that total assets at some point can be represented by property plant and equipment (multi-collinerarity).

To conclude, correlation coefficient is also used to determine whether the coefficient estimates may change in response to small changes in the model. The correlation coefficients of the regresses have indicated no multi-collinerarity among the variables. Since a variable did not exceeded 0.9, it is a belief that multi-collinerarity have not occurred among regresses. What it means is that regresses used in this study, can’t be used to represent another. The highest association was between property plant and equipment and total assets at 89.27% which is less than 90%, therefore it is conclusive there is no mult-colonaility among the variables used for the study.
4.4 Discussion of the Regression Result

Table 5: Regression result

| Variables | Coef  | t-stat | Prob.>|t|  |
|-----------|-------|--------|--------|---|
| AF        | 0.022261 | 0.11   | 0.913  |
| CHREC.    | 0.0149755 | 0.51   | 0.616  |
| CHREV.    | 0.0149755 | 0.27   | 0.788  |
| PPE       | -0.3210022 | -4.00  | 0.000* |
| TA        | 0.2473066 | 3.00   | 0.004* |
| Cons      | 0.7027555 | 0.66   | 0.511  |
| Prob.>|f| | 0.0090  |
| R²        |       | 0.2667 |

* denote the acceptance at 1% level of significance.

In the table 5 above, audit fees show a positive relationship with audit firm type with coefficient of (0.022261) 2.23% and t-value of (0.11) which is statistical insignificance. The implication is that, a change in the type of audit firm would cause audit fees to be increased by 2.23%. Banks should endeavor to keep audit firms for the maximum requirement of years so as to reduce the audit fees.
Change in receivables have a positive relationship with audit fees by coefficient of (0.0149755) 1.50% with t-stat of (0.51). This also confirms by statistical insignificance. The change in receivables would cause audit fees to change by 1.50%. This implies that, the more the company’s receivables continue to increase the higher the audit fees also increases. Following this results, banks in Ghana should endeavor to minimize its receivables in order to control audit fees hence increasing profitability.

Change in revenues as shown in table 5 above shows a positive relationship with audit fees by coefficient of (0.0149755) 1.50% with t-stat of (0.27) which was statistically insignificant. This denotes that, an increase in revenue would cause an increase in audit fees by 1.50%. Resulting from this implication, banks should venture to advance on the quality of their revenues in order to reduce the scope of their audit work therefore reducing audit fees.

Property plant and equipment according to table 5 above presents a negative relationship with audit fees by coefficient of (-0.3210022) with t-value of -3.00 at 1% level of significance. An increase of audit fees by currency points would cause property plant and equipment to decrease by 32% approximately. The evidence from the above table suggests that property plant and equipment is a significant factor in determination of how much the firm would pay its external auditors. Therefore, banks should endeavor to improve the quality and management of property plant and equipment in order to reduce audit fees.

Finally, total assets shows a positive relationship with audit fees showing a coefficient of (0.2473066) with t-stats of 3.00 at 1% level of significance. This implies that a change in audit fees would also cause total asset to change by 24.7%. The result is an indication that a rising value of total assets would call for more audit fees hence banks in Ghana should keep assets which are relevant to the cause of the business so as to reduce unnecessary audit fees charges.
The $R^2$ of 0.2667 shows the overall fitness of the regression model. This implies that 26.67% of variation in the audit fees of the sampled banks selected in Ghana is explained by the regressors. The overall level of significance of the model as shown in table 5 above is statistically significant at 1% level of significance. This level of significance also confirms the overall fitness of the model used in the study.
CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.0 Introduction

This chapter concludes the study and it presents the summary and conclusion. Also, it brings out the recommendations and areas for further studies for future researchers.

5.1 Summary of Findings

The study was designed to identify and explain the variables with a likely influence on the audit fees in Ghana. The study aimed at finding out the relationship between audit fees and property, plant and equipment. The study used audit fees as a dependent variable, while audit firm type, the change in the firms’ receivables and revenues, the value of property plant and equipment and the total assets of the banks were the independent and control variables.

The first objective of the study was to examine the relationship between audit fees and audit firm type. The study revealed that, there is a positive relationship between audit firm type and audit fees which was actually statistically insignificance. The positive relationship suggested that when a bank decides to change it external auditors, it somehow has impact on audit fees.

The second objective of the study was also attained by examining the relationship between audit work and audit fees of the sampled banks. However, the study established a negative relationship between property plant and equipment and audit fees at 1% level of significance. The finding suggested that the quality and management of property plant and equipment is a key determinant of audit fees in the selected banks in Ghana.

The findings of the study established a positive relationship between changes in receivables and audit fees however relationship was statistically insignificant.
The study also showed a positive association between change in revenues and audit fees which was also statistically insignificance.

Finally, the study revealed a positive association between total assets and audit fees at 1% level of significance.

5.2 Conclusion

The study examined the relationship between auditors’ independence and the quality of an audit in financial institutions in Ghana using nine banks out of twenty eight banks in Ghana due to unavailability of information covering six years period thus 2008 to 2013. Based on the results of the descriptive statistics, correlation and regression analysis, the researcher concluded on the following:

The study concludes that, since there was a positive relationship between audit firm type and audit fees, that is, change in audit firms cause changes in audit fees, in order to avert the soaring of audit fees, banks should endeavor to keep audit firms up to stipulated time by law in order to reduce audit fees.

Besides, the study presented a negative relationship between property plant and equipment and audit fees. Therefore, the study concluded that the improvement on the quality and management of property plant and equipment is likely to reduce audit fees.

Again, the study revealed a positive relationship between audit fees and change in receivables. In line of this the study concludes that to control audit fees, banks should possibly reduce its receivables.

Also, due to the positive relationship between audit fees and change in revenues, the study concluded that, banks should improve on the quality of their revenues in order to reduce the scope of their audit work hence reduce audit fees.
Finally, since the study established a positive relationship between audit fees and total assets, the study concludes that, banks should keep assets that are relevant to their cause of operation in order to avoid or reduce excessive audit fees charges.

5.3 Recommendations

Change in audit firms cause changes in audit fees, so, banks in Ghana should venture to keep external auditors for the maximum period of time stated by the companies’ code, so as to minimize the cost of audit.

Subsequently, property plant and equipment causes audit fees to also change. Due to this, banks should undertake measures to improve on the quality and management of property plant and equipment to reduce the scope of the audit and hence audit fees.

Again, banks in Ghana should reduce its receivables in order to control or reduce audit fees. This is because the more receivables increases, the higher the audit fees based on the scope and time used for the work.

Following the negative relationship between property plant and equipment and audit fees, further studies involving this relationship could also be done on non-listed financial institutions to confirm the result of this study and expand the scope (as in years and firms).
REFERENCES


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