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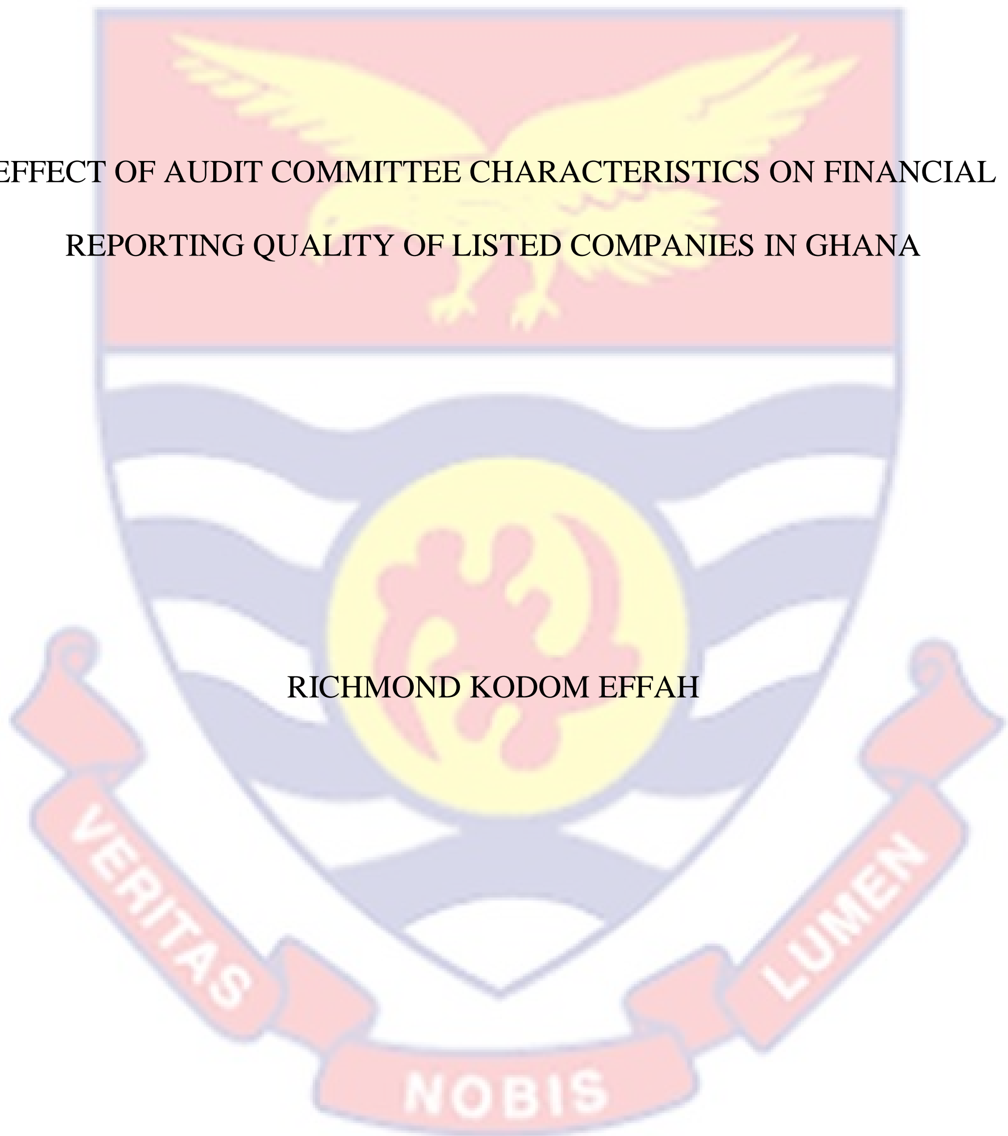

EFFECT OF AUDIT COMMITTEE CHARACTERISTICS ON FINANCIAL REPORTING QUALITY OF LISTED COMPANIES IN GHANA

RICHMOND KODOM EFFAH

2022

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EFFECT OF AUDIT COMMITTEE CHARACTERISTICS ON FINANCIAL REPORTING QUALITY OF LISTED COMPANIES IN GHANA

BY

RICHMOND KODOM EFFAH

Dissertation submitted to the Department of Accounting of the School of Business of the College of Humanities and Legal Studies, University of Cape Coast in partial fulfilment of the requirements for the award of Master of Business Administration degree in Accounting.

JUNE 2022

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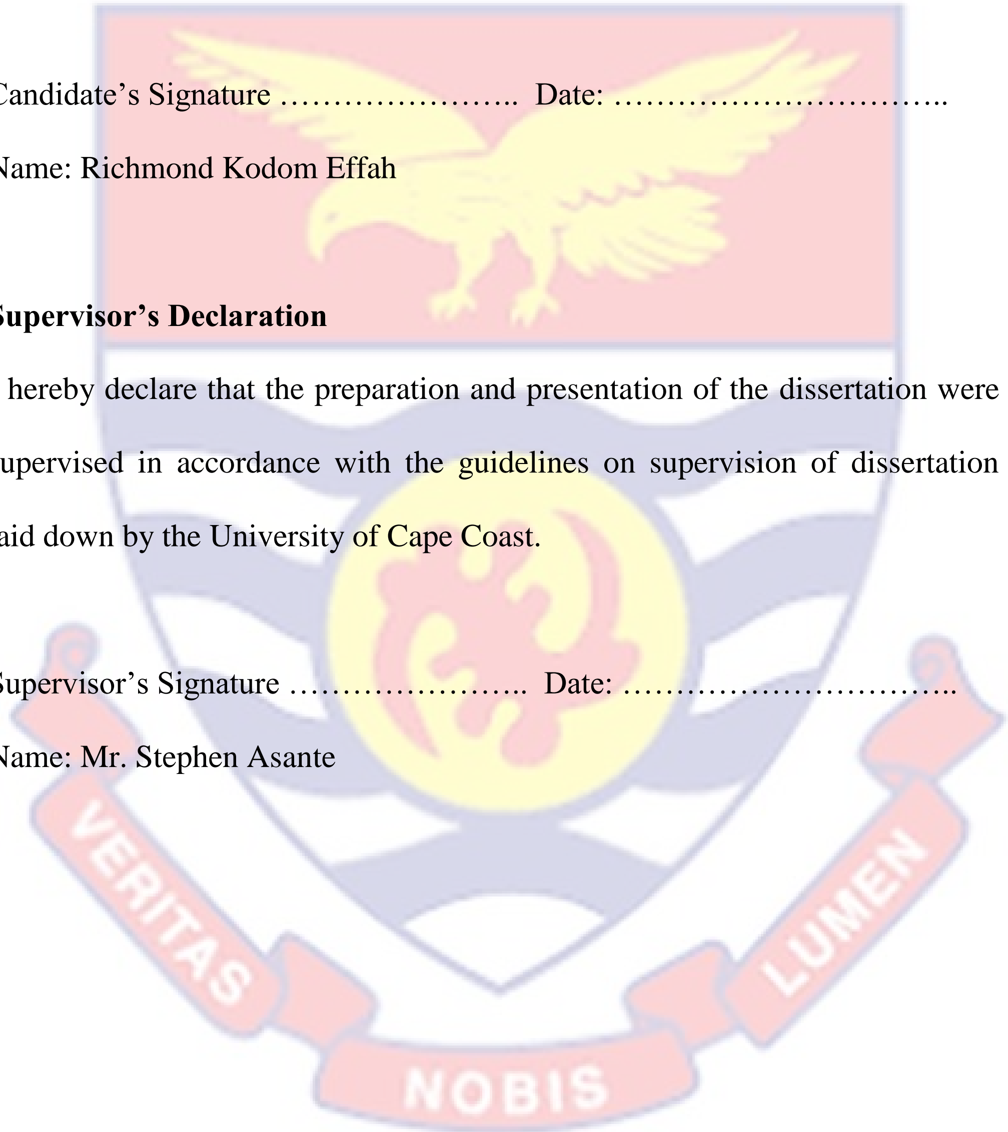
DECLARATION

Candidate's Declaration

I hereby declare that this dissertation is the result of my own original research work and that no part of it has been presented for another degree in this university or elsewhere.



Candidate's Signature ………………….. Date: …………………………..

Name: Richmond Kodom Effah

Supervisor's Declaration

I hereby declare that the preparation and presentation of the dissertation were supervised in accordance with the guidelines on supervision of dissertation laid down by the University of Cape Coast.

Supervisor's Signature ………………….. Date: …………………………..

Name: Mr. Stephen Asante

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ABSTRACT

The study examines the effect of audit committees on financial reporting quality in annual reports of listed companies in Ghana for the period 2005 to 2017. Using a sample of 30 listed companies, content analysis technique was employed to compute financial disclosure indexes for quantity and quality of financial disclosure, while regression analysis was conducted to examine the effect of five audit committee characteristics, namely gender, size of audit committee, frequency of meetings, independence of members, and financial expertise of members on financial disclosure. The study found that, on average, listed companies in Ghana disclosed 29.1% of financial information with the quality of disclosure being 54.0%. Moreover, the study revealed that, on average, non-financial companies made more financial disclosures than financial companies. In terms of the quality of financial disclosure, financial companies appeared to disclose high-quality financial information than nonfinancial companies. The results also showed a significant positive relationship between quantity of financial disclosure and financial expertise as well as independence of audit committees. On the other hand, size of audit committee and financial expertise of audit committee were found to have a positive and significant relationship with quality of financial disclosure. The study concluded that an audit committee with the relevant characteristics is an effective corporate governance mechanism that can help to protect the interest of shareholders through the effective monitoring of financial disclosure practices of companies. The study contributes to policy by emphasising that even in the absence of mandatory financial disclosure requirements for companies in Ghana, audit committees with adequate characteristics could help in improving the quantity and quality of financial disclosure by listed companies.

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KEY WORDS

Audit committee characteristics

Financial reporting quality

Ghana

Listed companies

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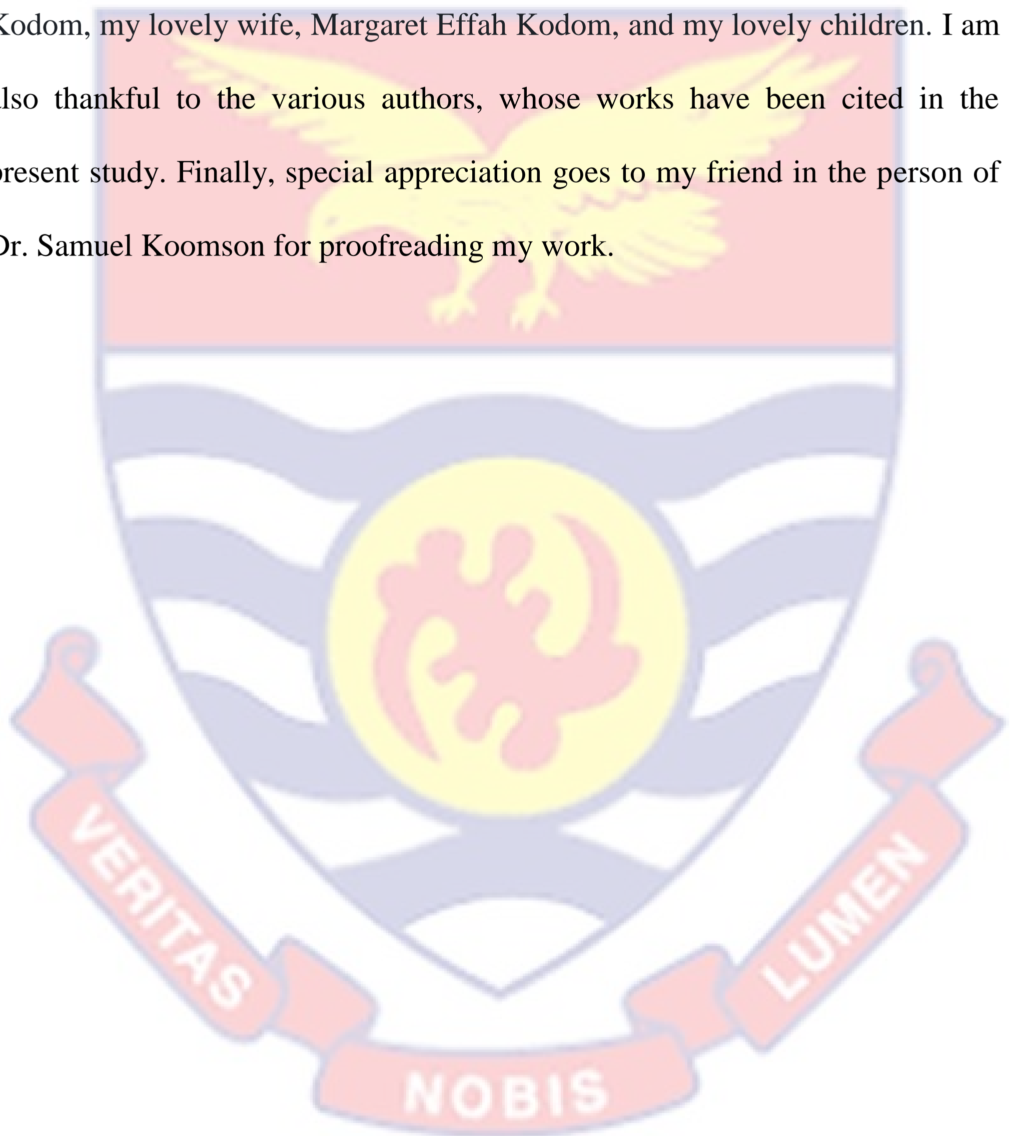

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DEDICATION

To my late dad: Mr. Abraham Kodom, and my late sister: Rebecca Owusua Kodom

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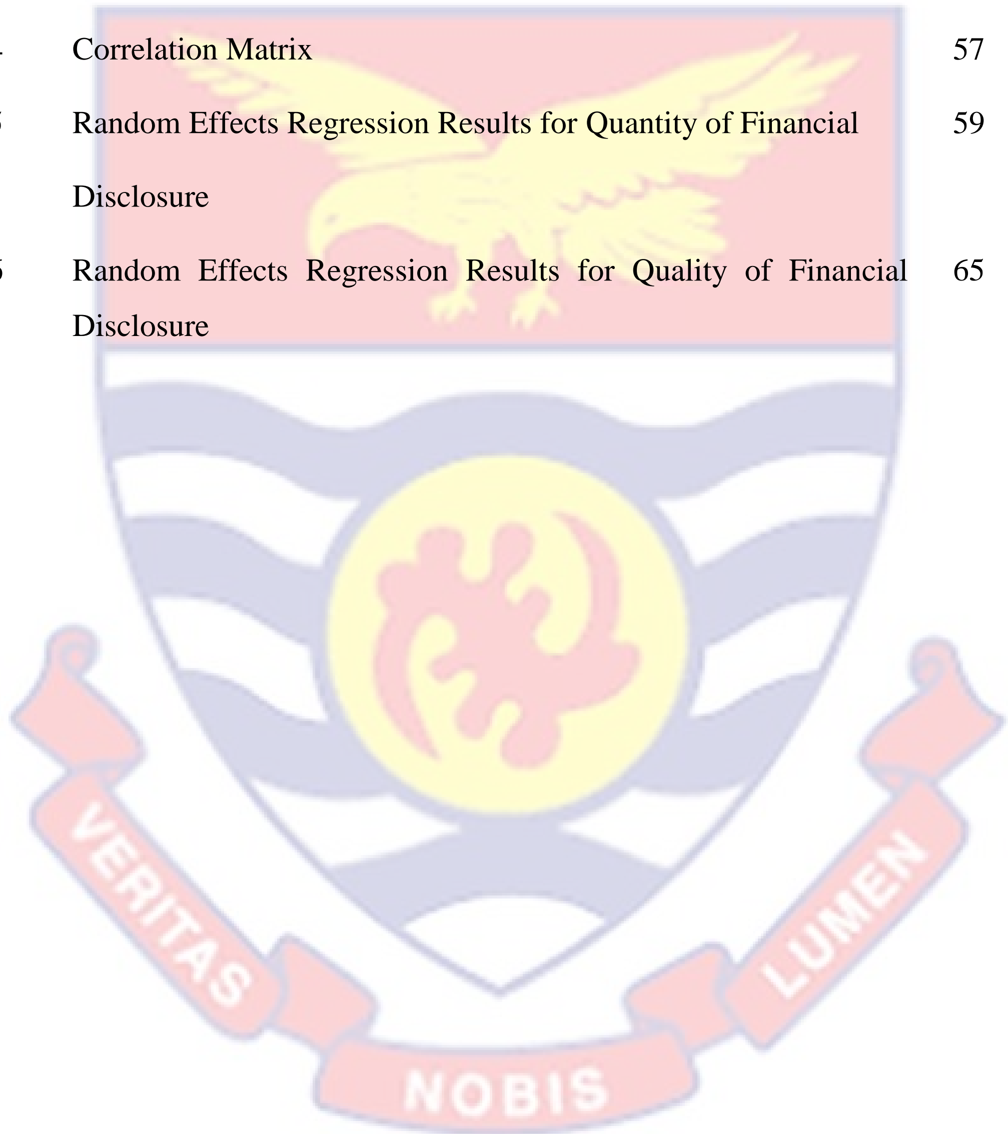

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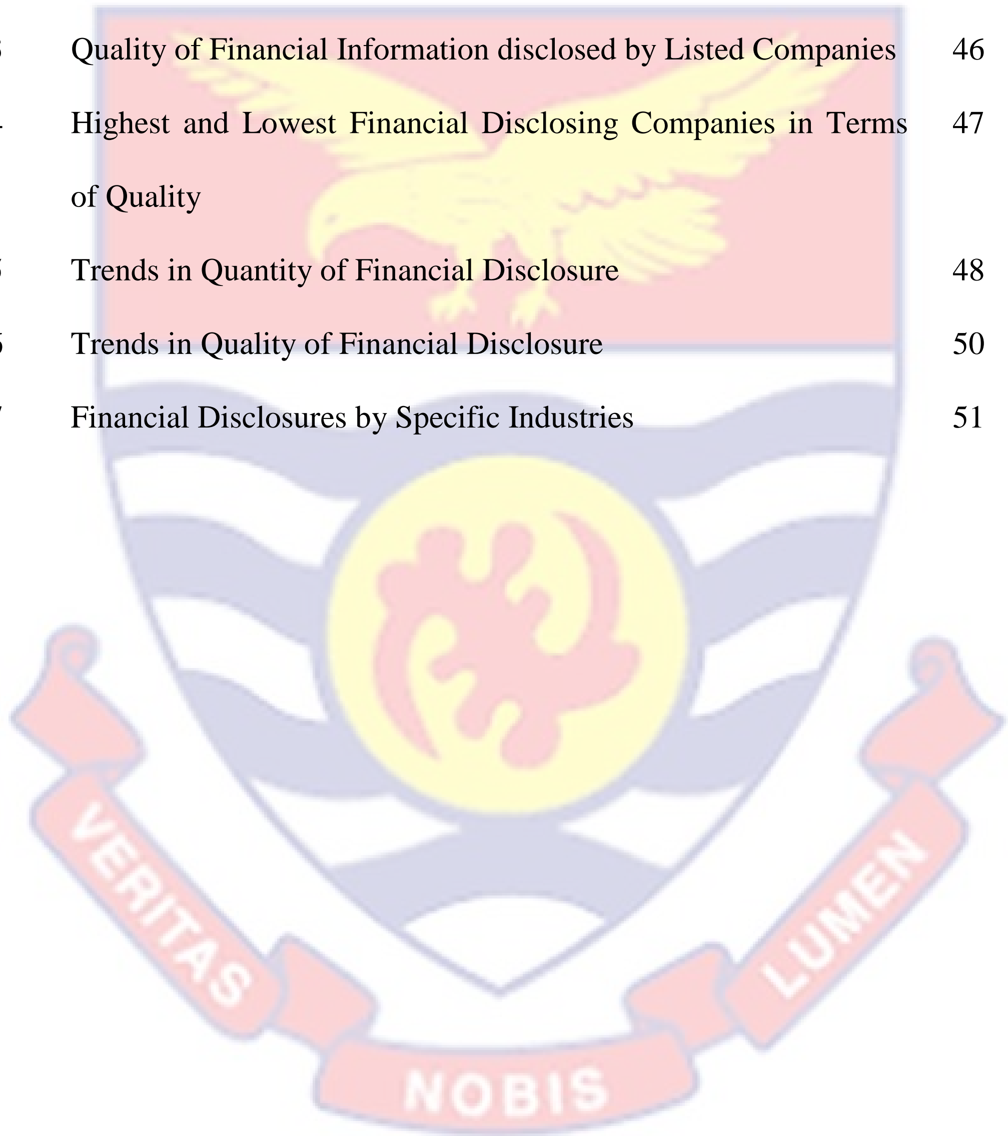

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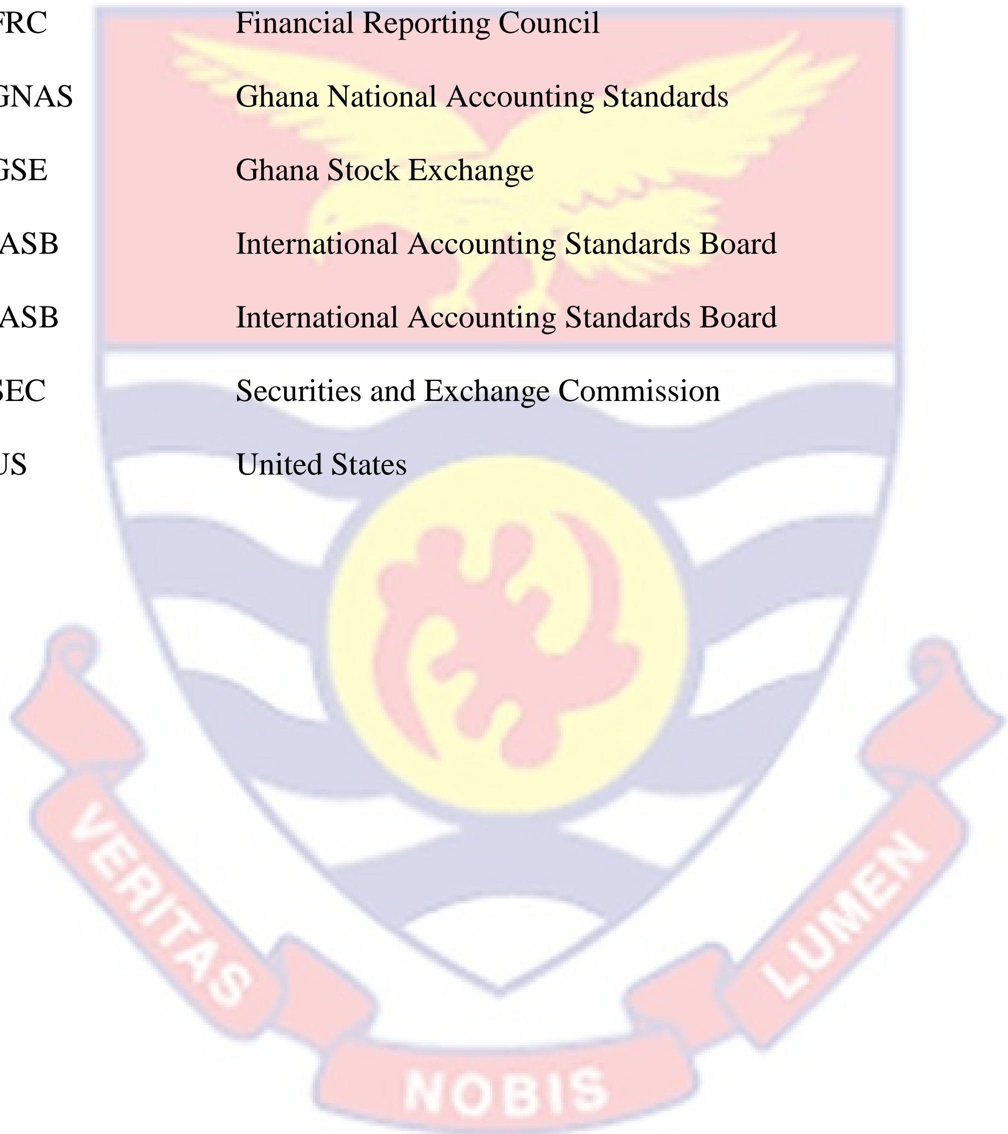
LIST OF ACRONYMS



ACCA	Association of Chartered Certified Accountants
AICPA	American Institute of Certified Public Accountants
BRC	Blue Ribbon Committee
FASB	Financial Accounting Standards Board
FRC	Financial Reporting Council
GNAS	Ghana National Accounting Standards
GSE	Ghana Stock Exchange
IASB	International Accounting Standards Board
IASB	International Accounting Standards Board
SEC	Securities and Exchange Commission
US	United States

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CHAPTER ONE

INTRODUCTION

It can be emphasised that, the timeliness of financial report is equally of great importance to stakeholders just as the quality of the financial report. In addition, the linkages between audit characteristics and financial reporting quality are crucial in corporate governance. However, this aspect is sparsely studied which needs critical attention for firm's financial performance. This study therefore sought to address the effect of audit committee characteristics on financial reporting quality of listed companies in Ghana for the period of 2005 to 2017. In addressing this main objective, three specific objectives were set. The first objective sought to assess the quantity of financial disclosures by listed companies in Ghana. The second objective sought to assess the quality of financial disclosures by listed companies in Ghana. The third and final objective sought to examine the relationship between audit committee characteristics and financial reporting quality of listed companies in Ghana.

Background of the Study

Since the early 2000s, the qualities of financial reporting and corporate disclosures have come under strict public scrutiny than never before due to the corporate scandals involving international companies such as WorldCom, Enron, Parmalat, and Lehman Brothers. It emerged that directors of these companies had used fraudulent accounting methods to push up stock prices, or connived with finance executives to conceal large debts and losses. These scandals appear to reduce the confidence of investors and other stakeholders in the objectivity, transparency and quality of financial reporting. Hence, investors are demanding for more detailed, transparent and quality financial

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reporting to enhance the effective functioning of the capital markets (Boesso & Kumar, 2007). Thus, it is essential to provide high-quality financial reporting to influence users in making investments decisions, and to enhance market efficiency.

The height of non-disclosure and fraudulent financial reporting practices of companies in the early 2000s pointed to weaknesses in the monitoring role of the board of directors and audit committees in enhancing the quality of financial reporting and internal controls. However, with the increasing demand for quality financial reporting, the role of the audit committee in terms of ensuring the credibility and objectivity of the financial reports and thereby enhancing the quality of financial reporting cannot be overemphasized. For instance, Herdman (2002) contends that the importance of audit committees in the post-Sarbanes-Oxley period cannot be underestimated in that the audit committee of the board of directors of a company is central to ensuring the integrity of published financial statements on which investors rely, and which are central to the efficiency of the capital markets.

In recent times, the need to strengthen audit committees to function effectively as an oversight committee for ensuring the quality of financial reporting and corporate disclosures has become more important than ever since the aftermath of the corporate scandals in the early 2000s. Hence, the audit committee as a sub-committee of the board of directors has received considerable attention from the Securities and Exchange Commission (SEC) of the United States (US), the Blue Ribbon Committee (BRC), the Financial Reporting Council (FRC) of UK, Financial Accounting Standards Board

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(FASB), the International Accounting Standards Board (IASB), and other international accounting bodies. It has been established that audit committees play a very critical role in enhancing the quality of financial reporting, overseeing the work of external auditors, monitoring and evaluating risk management and disclosure practices of the company, and overseeing the company's internal control system.

In its 1999 report titled "Report and recommendations of the Blue Ribbon Committee on improving the effectiveness of corporate audit committees", the BRC (1999) described the oversight role of audit committees as "ensuring that quality accounting policies, internal controls, and independent and objective outside auditors are in place to deter fraud, anticipate financial risks, and promote accurate, high quality and timely disclosure of financial and other material information to the board, to the public markets, and to shareholders". Moreover, Akhtaruddin and Haron (2010) opine that quality and transparent voluntary disclosure largely depends on a well-functioning audit committee. In addition, in recent times the big four accounting companies (Price Waterhouse Coopers, KPMG, Ernst & Young, and Deloitte and Touché) and the major accounting professional associations such as the Association of Chartered Certified Accountants (ACCA) and the American Institute of Certified Public Accountants (AICPA) have issued guidelines and disclosure rules and made various recommendations with the aim of enhancing the effectiveness of audit committees in ensuring quality financial reporting.

It must be emphasized that, though the overall responsibility of ensuring the credibility and relevance of financial reports lies with the board

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of directors of a company, over time, this responsibility has been vested in the audit committee of the board. Thus, the audit committee is entrusted with the responsibility of ensuring the integrity of financial statements, strengthen internal controls, and identify and manage financial risk (Viljoen, Bruwer & Enslin, 2016). Therefore, if the quality of financial reporting is in doubt then invariably the effectiveness of the audit committee in enhancing the quality of financial reporting is something left to be desired.

Statement of the Problem

The role of audit committees as a corporate governance mechanism that monitors the financial reporting and internal control systems of corporate companies with the aim of mitigating information asymmetry and the enhancing quality of financial reporting has received heightened attention in recent times. There is no doubt that corporate scandals involving major companies such as Enron, WorldCom, Parmalat among others have brought the effectiveness of the monitoring role of board of directors and audit committees into question. The call from the SEC of US, FRC of UK, the FASB as well as the recommendations of the BRC and the Sarbanes-Oxley Act of 2002 towards the strengthening of audit committee is apt especially at the time that investors appear to lose confidence in the objectivity and transparency of financial statements of companies due to the recent corporate scandals.

Post the early 2000 corporate scandals, the demand for more objectivity and transparency in corporate reporting has been heightened, and the role of audit committee in monitoring the financial reporting and internal control systems of companies has come on strict public scrutiny and continue

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to gain increasing attention from stakeholders and researchers. Therefore, the effectiveness of audit committees has been a subject of increasing interests due to increased concerns about the quality of financial reporting since the aftermath of the corporate scandals (Juhmani, 2017).

Since the wake of the corporate scandals, much attention has been shifted to the effectiveness of audit committee in ensuring the quality of financial reporting. This is because the formation of audit committees by majority of corporate companies is aimed at improving the quality of financial reporting and ensuring effective internal control system (Ramsay, 2001). In this regard, some studies that examined the effectiveness of audit committees in ensuring financial reporting quality concluded that an audit committee's effectiveness largely depends on its characteristics (Persons, 2009; Bédard & Gendron, 2010; Li et al., 2012; Madi, Ishak & Manaf, 2014). Thus, an audit committee with the adequate members who have considerable financial and accounting expertise and independent of management and meet at least three times in a year is in a better position to effectively carry out its monitoring role of ensuring financial reporting quality.

However, despite the apparent empirical evidence from developed countries that audit committees' effectiveness is premised on their characteristics (Qi & Tian, 2012; Yang & Krishnan, 2005; Vafeas, 2005; Pucheta-Martinez & Fuentes, 2007; Klein, 2002; Hussain & Alkdai, 2012; Bédard & Gendron, 2010), there has been very limited empirical research in the context of developing countries. It must be emphasized that, several studies drawing on board characteristics to explain the quality of financial reporting in developing countries have failed to examine the effect of audit

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committee characteristics on financial reporting quality. Moreover, to the best of the researcher's knowledge, there is no empirical study in Ghana in this area. Therefore, this study seeks to fill such gap by examining the effect of audit committee characteristics on financial reporting quality by listed companies in Ghana for the period 2005 to 2017.

Purpose of the Study

The main purpose of the study is to examine the effect of audit committees on financial reporting quality of listed companies in Ghana for the period 2005 to 2017.

Research Objectives

Specifically, the study sought to achieve the following objectives:

1. To assess the quantity of financial disclosures by listed companies in Ghana.
2. To assess the quality of financial disclosures by listed companies in Ghana.
3. To examine the effect of audit committee characteristics on financial reporting quality of listed companies in Ghana.

Research Questions

The following pertinent research questions were formulated to guide the study in achieving the specific objectives of the study:

1. What is the quantity of financial disclosures by listed companies in Ghana?
2. What is the quality of financial disclosures by listed companies in Ghana?

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3. What is the effect of audit committee characteristics on financial reporting quality of listed companies in Ghana?

Significance of the Study

The study made contributions to research, practice, and policy formulation. Firstly, the study contributed to literature on the effect of audit committees on financial reporting quality from the perspective of developing countries. It must be emphasized that most of the prior studies in this areas were conducted in the US, UK, Australia and other developed countries where there are stringent audit committee regulations and the role and composition of audit committees clearly defined by legislations, unlike developing countries. Therefore, the results of such studies from developed countries cannot be replicated in developing countries like Ghana which the corporate governance framework and the concept of audit committee is still at embryonic stage. Hence, this study enriched the literature by providing evidence on the effect of audit committees on financial reporting quality from the perspective of a developing country.

In terms of practice, the study had far reaching implications on board of directors by giving them insight into the relevance of the role of audit committee in ensuring financial reporting quality. Though, over time, the monitoring role of ensuring the quality of financial reporting and internal controls system have been entrusted with audit committee, this study provided evidence to suggest the need to consider some specific characteristics and competencies of members appointed to audit committees. Thus, the study made a case as to whether certain characteristics can make their audit committees more effective in performing their monitoring role. This helped

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companies and the board of directors to consider such characteristics when restructuring and composing future audit committees.

In addition, the study contributed to policy by emphasizing that there is the need for every board to have a separate audit committee delegated with the oversight responsibility of ensuring credible and quality financial reporting and internal control systems. Moreover, market regulators such as the Ghana Stock Exchange (GSE), as part of their listing rules in the future, can rely on the study demand that the composition of audit committees of listed companies should be based on certain characteristics which are deemed to have a significant influence on the effectiveness of the committee. This helped in strengthening audit committees to carry out their functions effectively to enhance the credibility of financial reports and contribute to improving corporate governance effectiveness among listed companies in Ghana in terms of financial reporting quality.

Delimitations

The study sought to focus on listed companies on the GSE as at December 2017 and did not include non-listed companies due to lack of data. The study period was 2005 – 2017 since majority of the annual reports available were for financial years within this reporting periods. Though the target population of the study was all 42 listed companies as at December 2017, some twelve companies were excluded from the final sample due to unavailability of annual reports or lack of information on audit committees in their annual reports. The study relied solely on secondary data obtained from annual reports of the 30 listed companies.

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Limitations

Due to non-availability of data for non-listed companies, the study focused on only listed companies and for that matter the findings of the study cannot be generalized to non-listed companies. Also, it must be emphasized that the study used discretionary accruals as a proxy for financial reporting quality however, the level of accruals may differ within each industry and a general earnings management trend within a specific industry may not be detectable. In addition, the computation of the accruals was affected by the inherent limitation of the Modified Jones Model such as the situation where receivables variation is not exclusively captured by earnings management. Notwithstanding the limitations of the Modified Jones Model, by far, it still remains the widely used model for computing discretionary and non-discretionary accruals in studies of this nature as revealed by the existing literature.

Organisation of the Study

The study is organised and presented in five chapters. Chapter One is the introduction which covers the background to study, problem statement, purpose and objectives of the study, research questions, significance of the study, delimitations and limitations of the study, as well as the organisation of the study. Chapter Two involves a review of theoretical and empirical literature on audit committees and their effect on financial reporting quality. Other corporate governance issues are also addressed in this chapter. Chapter Three presents the research method that was followed to conduct the study.

Specifically, the chapter presented the research paradigm and approach that underpinned the study, the population and sampling criteria used to select

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the sample. Also, included in this chapter was the methods of data collection and analysis as well as description and measurement of dependent and independent variables. Chapter Four comprises the presentation and analysis of results. In addition, the discussion of findings with reference to prior literature was presented in this chapter. Finally, Chapter Five involves the summary of the study, highlight of the key findings and conclusions drawn from the findings. It also presents the recommendations for further action, and suggestions for further research.

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CHAPTER TWO

LITERATURE REVIEW

Introduction

The chapter presents the theoretical framework of the study and a review of relevant literature on the relationship between financial reporting quality and audit committees. The chapter discusses the concept of corporate disclosures narrowing it down to financial disclosures. In addition, the chapter presents an empirical review on the influence of audit committee characteristic on financial reporting quality. The hypotheses for the study are also presented in this chapter.

Theoretical Framework

Drawing on the agency theory, the study sought to establish there is a relationship between audit committee characteristics and the quality of financial reporting. Jensen and Meckling (1976) define the agency relationship as “a contract under which one or more persons (the principals) engage another person (the agent) to perform some service on their behalf which involves delegating some decision-making authority to the agent” (p. 308). In other words, an agency relationship is said to exist when a principal (shareholders) engages an agent (management) to act on the former’s behalf with aim of promoting the former’s interest.

There is no gainsaying that audit committees as a sub-committee of the board of directors of a company play a very important role in ensuring the quality of financial statements. As a monitoring mechanism, audit committees ensure that companies comply with the relevant accounting standards and regulations in the preparation of financial reports. Therefore, over time,

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companies with effective audit committees have experienced an improvement in financial reporting and risk disclosure practices of companies thereby reducing the problem of information asymmetry and minimizing agency cost (Dhaliwal et al., 2010; Li et al., 2012).

In explaining the effect of audit committee characteristics on corporate disclosures, Chapple et al. (2012), Haat, et al. (2008), Madi et al. (2014) employed the agency theory to underpin their studies. Ho and Wong (2001) posit that audit committee that is composed mainly of independent non-executive helps to improve the quality of financial reporting and reduces information asymmetry. In this direction, Taylor (2011) argues that the agency theory supports the idea that audit committees should be composed mainly of non-executive directors who will seek the interest of shareholders who appointed them and thereby reduce information asymmetry. From the foregoing, the agency theory was deemed the appropriate theory to that underpins the study.

Corporate Disclosures

Corporate disclosure is defined as "the communication of economic information, whether financial or non-financial, quantitative or qualitative concerning a company's financial position and performance" (Owusu-Ansah, 1998). It refers to the act the communicating quantitative or qualitative information about a company's activities and financial performance, whether the communication of such information is required by law or done voluntarily, with the aim of providing stakeholders with sufficient information to make their economic decisions (Gray, Meek & Roberts, 1995). The main aim of corporate disclosures is the provision of relevant and reliable information the

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financial performance of an economic entity to permit the various stakeholders to make and evaluate economic decisions relating to the allocation of scarce resources. Thus, corporate disclosure is a means of communicating a company's financial and non-financial related issues to the relevant stakeholders (Healy & Palepu, 2001; Hassan, Hijazi & Naser, 2017).

The practice of providing detailed financial and non-financial information on the activities of corporate organizations to stakeholders for decision-making may be referred to as corporate disclosure. Corporate disclosures are presented in the annual reports of companies as two major categories of information; financial statements and narrative reports. The general objective of financial statements is to provide information about the financial position, performance, and changes in financial position of an enterprise that is useful to a wide range of users in making economic decisions.

Though financial statements form the core elements of financial reporting, companies equally provide non-financial information to help the stakeholders better appreciate reasons behind the figures provided in the financial section of the annual reports. The non-financial reports presented outside of the financial statements include: auditors report, chairman's review/operating and financial review, director's report, statement of corporate governance, environmental reports, and other value added statements. Thus, technically corporate disclosure is an integral part of financial reporting.

Corporate disclosure can be categorised as mandatory or voluntary depending regulatory regime a company finds itself. While mandatory disclosure consists of financial information disclosed in compliance with IFRS

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and other regulations, voluntary disclosure refers to non-financial information provided at the discretion of management in addition to the mandatory disclosure. The two major categories of corporate disclosure are discussed as follows:

The Concept of Financial Reporting Quality

According to International Accounting Standards Board [IASB] (2008), the essential principle of assessing the financial reporting quality is related to the faithfulness of the objectives and quality of disclosed information in a company's financial reports. These qualitative characteristics enhance the assessment of the usefulness of financial reports, which will also lead to a high level of quality (Herath & Albarqi, 2017). To achieve this level, financial reports must be faithfully represented, comparable, verifiable, timely, and understandable. Gajevszky (2015) contends that the emphasis is on having transparent financial reports, and not having misleading financial reports to users; not to mention the importance of preciseness and predictability as indicators of a high financial reporting quality.

The Conceptual Framework for Financial Reporting by FASB (2010) and the IASB (2008), outlines that qualitative characteristics of financial reporting quality include: relevance, faithful representation, understandability, comparability, verifiability, and timeliness. These characteristics are further divided into two major categories - fundamental qualitative characteristics and enhancing qualitative characteristics. The fundamental qualitative characteristics - relevance and faithful representation are the most critical and determinative of content in financial reporting. On the other hand, the enhancing qualitative characteristics-understandability, comparability,

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verifiability, and timelines assist in improving the decision usefulness when the fundamental qualitative characteristics are recognized (FASB, 2010).

Despite the distinction between the qualitative characteristics of financial reporting quality, it must be indicated that in the enhancing qualitative characteristics cannot, by themselves, determine financial reporting quality (IASB, 2008). Hence, accounting researchers are faced with the problem of identifying the factors or mechanisms that really influence the quality of financial reporting. In an attempt to unmasked the factors that influence the quality of financial reporting, Gajevszky (2015) found that the quality of financial reporting is associated with many different influences from governance structure, the accounting profession, economic factors, international forces, taxation, and political systems are some of the factors that influence and control the quality of financial reporting.

Also, in their review of literature on financial reporting quality, Herath and Albarqi (2017) identified various factors as determinants of financial reporting quality. These factors include earnings management, corporate governance practices, capital markets, internal control, internal reporting systems, accounting standards, information technologies and accounting information systems, auditing, accounting conservatism, financial restatements, company reputation, culture, business ethics, CEO inside debt holdings, the size of company, and the board size among other factors.

Corporate Governance and Financial Reporting Quality

While corporate governance has an essential role in ensuring financial reporting quality as indicated by Herath and Albarqi (2017), studies have shown that the relationship between corporate governance and financial

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reporting quality has largely been premised on the effectiveness of the board of directors in exercising their oversight responsibilities of ensuring financial reporting quality (Honu & Gajevszky, 2014). However, it must be emphasized that the board of directors most often delegate it responsibility of ensuring the quality of financial reporting to one of the audit committee. Hence, in examining the relationship of the board in ensuring the quality of financial reporting, it will be most appropriate to focus on the audit committee in specificity rather than the whole board of directors.

Over the last few decades, the role of audit committees has become more pronounced by Securities and Exchange Commission (SEC) of the United States (US), the Blue Ribbon Committee (BRC), Financial Accounting Standards Board (FASB), the International Accounting Standards Board (IASB), the Big Four Accounting companies, and other international accounting bodies due to the various financial scandals involving big companies in the US. Since the occurrence of the major scandals, the stability of capital markets has been shaken leading to loss of investor confidence in the credibility of financial reports of companies (Huang & Thiruvadi, 2009).

In the midst of the scandals, the Sarbanes-Oxley Act of 2002 (SOX) was promulgated to streamline the activities of companies and protect investors from fraudulent financial reporting practices by companies. The importance of audit committees as monitoring mechanisms for enhancing the quality of financial reporting was emphasized by the SOX and BRC. For instance, in their separate recommendations, the SOX and the BRC made suggestions towards increasing the operational efficiency, effectiveness and independence of the audit committee.

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Audit Committee and Corporate Governance

There is no gainsaying that the demand for good corporate governance practices across the globe is high with continuing calls for higher corporate governance standards across Europe and the Americas. Since the corporate scandals involving major companies in the US in the early 2000s, the expectations of stakeholders in the corporate world have never ceased to be greater. The growing public scrutiny of the financial reporting practices of companies and the call for stringent regulatory rules show no signs of slowing down. As a result of these developments, the role of the audit committee has received much attention in recent times. Major regulatory bodies such as the SEC of US, the FRC of UK, and major international accounting companies such as PwC and KPMG have issued recommendations for an expansion in the role of audit committees to include not only issues relating to financial reporting but risk management and disclosures as well as other non-financial disclosures.

The circumstances leading to the collapse of companies like Enron and WorldCom among others imply that lack of effective corporate governance mechanism to check the activities of company directors can have a serious repercussion on the financial reporting practices of companies. To avoid the recurrence of the corporate scandals and other financial reporting violations by directors of companies, the Sarbanes-Oxley Act of 2002 (SOX) came into force. The SOX sought to mitigate the agency problem between management of companies and their shareholders by instituting regulations that will ensure that the activities of companies are been monitored by an outside oversight body. Among the major recommendations of the SOX was the formation of

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audit committee as a sub-committee of the board of directors to oversee the financial reporting practices of companies.

The audit committee as a subcommittee of the board of directors is entrusted with the responsibility of monitoring the financial reporting process of a company, monitoring the effectiveness of internal control and risk management systems, and monitoring the effectiveness of internal audit among others (Bedard & Gendron, 2010; Li, Mangena, & Pike, 2012). Apart from the core roles of the audit committee – monitoring the financial reporting and internal controls of the company, the Audit Committee Institute (ACI) (2016) asserts that the audit committee has an oversight responsibility of monitoring and reviewing the disclosure of a range of risks such as operational risk, compliance risk, cyber security risks and other risks associated with emerging technologies. This implies that as an oversight committee of the board of directors, the audit committee plays a very important role in monitoring and enhancing the quality of financial reporting and risk disclosure practices of companies (Persons, 2009).

Moreover, in line with the agency theory, the audit committee is required to perform the delegated responsibility of monitoring and enhancing both financial and non-financial reporting practices of the company thereby reducing the problem of information asymmetry between management and stakeholders (Li et al., 2012; Akhtaruddin & Haron, 2010). When audit committees perform their oversight responsibility as required of them by SEC, SOX, FRC, and IFRS among other accounting regulations, it helps in enhancing public trust in the credibility and objectivity of financial reporting of companies (Kelton & Yang, 2008; Bedard & Gendron, 2010).

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In the US, the importance of audit committee as a key corporate governance mechanism has been emphasized by the SEC and SOX. The SOX indicates that the effectiveness of the audit committee in exercising its oversight responsibility of monitoring financial reporting and internal controls is contingent on its independence and the financial expertise of its members. The SOX recommends that the audit committees should be composed mainly of independent non-executive directors with at least one of the members being a financial expert or a person with some level of financial expertise.

Similarly, in its release entitled "Guidance on Audit Committees", the FRC (2012) of UK emphasizes not only the importance audit committees as a key corporate governance mechanism but suggests how the audit committee should be constituted to enhance its effectiveness. The FRC states that - the board of directors of a company shall establish an audit committee of at least three or in the case of smaller companies two independent non-executive directors. In terms of financial expertise, the FRC requires that the membership of the audit committee should include at least one person with some considerable financial knowledge and experience. Moreover, it is recommended that an audit committee should have a minimum membership of three. However, large companies are encouraged to have large audit committees since this enhances the diversity of the committee in terms of expertise.

Audit Committees Characteristics and Financial Reporting Quality

There is no gainsaying that audit committees as a subcommittee of the board of directors of a company play a very important function monitoring the quality of financial reporting. Over time, companies with effective audit

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committees have experienced an improvement in financial reporting and risk disclosure practices of companies thereby reducing the problem of information asymmetry and minimizing agency cost (Dhaliwal et al., 2010; Li et al., 2012). The audit committee as a sub-committee of the board ensures the board fulfills its legal responsibilities of ensuring the credibility and objectivity of the financial reports (Hossain & Khan, 2006). The aim of establishing audit committees, according to Whittington and Pany, (2001), is for the Board of Directors to take active role in overseeing the company's accounting and financial reporting policies and practices.

Akhtaruddin and Haron (2010) posit that audit committees' role in monitoring and improving financial reporting and risk disclosure practices of companies has helped in enhancing the integrity and credibility of annual reports. However, it must be emphasized that extant literature has credited the effectiveness of audit committees to the quality and efficacy of audit committee characteristics (Bedard & Gendron, 2010; Dhaliwal et al., 2010; Persons, 2009). From the foregoing, it has been argued that the right combination of characteristics is very critical to the effectiveness of the audit committees (Akhtaruddin & Haron, 2010).

Studies that have examined the relationship between audit committee characteristics and quality of financial reporting appear to show mixed results. In investigating the effect of audit committee expertise on the quality of financial reporting, Krishnan and Visvanathan (2008) found that the existence of a financial expert on an audit committee enhances financial reporting quality. Also, Abernathy (2010) revealed that having a financial accounting expert on audit committees is positively associated with forecast accuracy and

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negatively associated with forecast dispersion. Moreover, Zang, Kim, Benjamin and Dan (2013) that the inclusion of financial accounting expert on the audit committee leads to financial reporting quality more than just including a financial expert.

In examining the relationship between audit committee characteristics and quality of financial reporting using corporate fraud as a proxy for potential fraudulent financial reporting, Huang and Thiruvadi (2009) while gender diversity of audit committee and the presence of financial expert on an audit committee had a significant association with fraud prevention, the frequency of meetings and size of audit committee had no significant association with fraud prevention. In elated studies, Razali and Arshad (2014) and Lajili and Zeghal (2011) reported a positive association between independence of audit committees and quality of financial reporting. Razali and Arshad went ahead to argue that an independent audit committee is an effective corporate governance mechanism that enhances the quality of financial reporting.

Furthermore, Braam and Beest (2013) found that the more independent, more capable, and more qualified the audit committees are, the better their ability to detect material misstatements in the financial information, and the better their ability to deter any opportunities for managements to manipulate reporting. Hence, they concluded that audit committee characteristics have significant effect on both financial reporting quality and audit inputs.

Notwithstanding the fact that the results of the relationship between audit committee characteristic and quality of financial reporting have been mixed, there is a reason to believe that to a large extent there is a relationship

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between financial reporting quality and audit committees. Since the audit committee oversees and supervises financial reporting and disclosures practices of companies by monitoring and reviewing the company's choices of accounting policies and regulations, as well as internal control system, the role of audit committees in enhancing the quality of financial reporting cannot be underestimated (Blue Ribbon Committee, 1999).

Empirical Review and Development of Hypotheses

Extant literature on the effect of audit committee characteristics on financial reporting quality have shown mixed results. Based on the findings of prior studies in this area, the researcher seeks to develop hypotheses to test the relationship between audit committee characteristics and financial reporting quality. The study used five audit committee characteristics – size of audit committee, gender diversity, independence of audit committee, frequency of meetings, financial expertise of audit committee. Therefore, this section presents a review studies on the relationship between the aforementioned audit committee characteristics and financial reporting quality.

Gender of Audit Committee Members and Financial Reporting Quality

Limited studies have sought to examine the effect of gender diversity of audit committee on financial reporting quality. On the influence of gender differences on corporate decisions, Dennis and Kunkel (2004) claim that female directors are very stable, calm and less aggressive in their decisions as compared to their male counterparts. Heminway (2007) argues that women are more trustworthy than men, and are thereby less likely to manipulate corporate financial and other disclosures. Peni and Vahamaa (2010) provide evidence that female CFOs engage in less earnings management than male CFOs. Qi

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and Tian (2012) contend that female audit committees may be more conservative than male audit committees, and they may also have higher ethical level than male audit committees.

In her study on gender differences and audit committee characteristics, Thiruvadi (2008) asserts that audit committees with female directors have diversity in their decisions and reports than all-male audit committees. Hence, she contends that female directors on audit committee may be more sensitive in their analysis of the financial statements of companies to ensure the crediting of financial reporting. Huang and Thiruvadi (2009) opine that there is a likelihood that audit committees with female representation would function differently from an all-male audit committee. Using one-way ANOVA to test the influence of gender on the effectiveness of audit committee, they found that variations in the reports of audit committees with more gender diversity than male-only audit committee.

In examining the influence of audit committee characteristics on intellectual capital disclosure in Indonesia Banking Industry, Uzliawati, Suhardjanto and Djati (2014) reported that the disclosure of information pertaining to the intellectual capital of a company is positively related to gender diversity of audit committee thus the presence of female directors on the committee. On the contrary, Velte (2018), and Smith, Smith, and Verner, (2006) found no association between gender diversity of audit committee members and the extent of risk disclosure.

Based on the above findings, it was hypothesized that:

H_1: There is a relationship between gender diversity of audit committee and financial reporting quality

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Financial Expertise of Audit Committee Members and Financial Reporting Quality

Studies on the effect of financial expertise of audit committees on financial reporting quality show mixed results. For instance, Bédard et al. (2004) found that financial expertise is associated with a significant decrease in aggressive earnings management. Also, Lin and Hwang (2010), Soliman and Ragab (2014) found a significant negative relationship between financial expertise of audit committee and earnings management. Chapple, Jubb and Lee (2012) examined audit committee effectiveness and regulatory compliance in a highly sanctioned environment using financial expertise of the members of audit committees as one of the proxies. The results showed a significant positive relationship between financial expertise of members and environmental disclosure.

Akhtaruddin and Haron (2010) found a positive relationship between the financial expertise of audit committee members and the quality of risk disclosure. Carcello et al. (2006) find that independent audit committee members with accounting expertise and certain types of non-accounting financial expertise are most effective in mitigating earnings management. Again, Huang and Thiruvadi (2009) found that audit committee financial expertise is negatively and significantly associated with fraudulent financial reporting.

On the contrary, Madi et al. (2014) found no significant relationship between financial expertise of audit committee members and corporate voluntary disclosure. Othman, Ishak, Arif and Abdul (2014) examined the influence of audit committee characteristics on voluntary ethics disclosures of

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the top 94 companies listed on Bursa Malaysia and found no significant relationship between financial expertise of audit committee and voluntary ethics disclosure.

Based on the above findings, it was hypothesized that:

H_2: There is a relationship between financial expertise of audit committee and financial reporting quality

Size of Audit Committee and Financial Reporting Quality

Extant literature suggested that the companies with large audit committees are more effective in monitoring and management and it may play a vital role in constraining the occurrence of earnings management. For instance, Yang and Krishnan (2005), Lin et al. (2006), Baxter and Cotter (2009), found a negative significant association between the size of audit committees and earnings management. However, Xie et al. (2003), Bėdard et al. (2004), Hussain Alkdai (2012) and Soliman and Ragab (2014) found no significant relationship between audit committees size and the level of earnings management. Similarly, in examining the effect of audit committees on earning management practices of listed companies in Bahrain, Juhmani (2017) found that discretionary accruals as a proxy for earnings management is negatively associated with size of audit committee.

In examining the effect of the characteristics of audit committee voluntary disclosure among 146 companies in Malaysia, Madi et al. (2014) reported a positive relationship between quality of voluntary disclosure and size of audit committee. Also, Chapple et al. (2012) found a positive association between size of audit committee and environmental disclosure. Persons (2009) found a significant association between a number of directors

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on audit committees and the extent of voluntary disclosure. Moreover, Neri (2010), Madi et al. (2014), Abraham and Cox (2007) and Viljoen, Bruwer and Enslin (2016) who found a significant positive relationship between audit committee size and risk disclosure.

On the other hand, Huang and Thiruvadi (2008) found no significant relationship among size of audit committee fraud prevention. In addition, Othman et al. (2014) found that there is no significant effect of size of audit committee on voluntary ethics disclosure. Muzahem (2011) found no significant effect of size of audit committee on the extent of risk disclosure. Based on the above findings, it was hypothesized that:

H_3: There is a relationship between size of audit committee and financial reporting quality

Independence of Audit Committee and Financial Reporting Quality

Klein (2002) found a negative relation between audit committee independence and abnormal accruals. In Malaysia, Bradbury et al. (2006) find that the relation between audit committee independence and higher financial reporting quality exists only when the abnormal accruals are income increasing. Madi et al. (2014) found a significant relationship among the number of independence non-executive directors on an audit committee and voluntary disclosure and concluded that independent audit committees effectively monitor and oversee corporate disclosure practices of companies hence enhance voluntary disclosure. Razali and Arshad (2014) and Lajili and Zeghal (2011) reported a positive association between independence of audit committees and quality of financial reporting.

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Razali and Arshad showed that independent audit committee is an effective corporate governance mechanism that enhances the quality of financial reporting. Also, Duchin et al. (2010) opine that a large number of non-executive directors of an audit committee would enhance the objectivity, reliability, and transparency of the company's financial reporting and voluntary disclosures. Chapple et al. (2012) found a significant relationship among audit committee independence and environmental disclosure. Furthermore, Taylor (2011), and Htay, Rashid, Adnan and Meera (2012) reported that the presence of non-executive directors on audit committees enhances voluntary disclosure.

However, Ismail and Rahman (2011), Haat, Rahman and Mahenthiran (2008), Dionne and Triki (2005) reported that there is no significant relationship between the number of non-executive directors on audit committee and voluntary disclosure. Also, Othman, et al. (2014) found an insignificant relationship between audit committee independence and voluntary ethics disclosure.

Based on the above findings, it was hypothesized that:

H_4: There is a relationship between independence of audit committee and financial reporting quality

Frequency of Audit Committee Meetings and Financial Reporting Quality

Prior researchers argue that an audit committee that meets more frequently will be more effective in overseeing and monitoring the financial activities such as the preparation and reporting the company's financial information. It is believed that frequent meetings of audit committees provide members the laxity to monitor, discuss and critically examine the financial

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reporting practices and internal control systems and other voluntary disclosure issues presented to them (Allegrini & Greco, 2011; Greco, 2011). Moreover, Li et al. (2012) suggest that, an active audit committee that meets frequently during the year, would provide its members with greater opportunities for discussing and evaluating the issues placed before them concerning the company's financial reporting practices.

Empirical studies on the relationship between the frequency of meetings of audit committees and financial reporting quality are mixed. For instance, Appuhami and Tashakor (2017) found a significant positive association between frequency of audit committee meetings and CSR disclosures among listed companies in Australia. This appears to suggest that regular meetings of audit committees give members the laxity to critically scrutinize the annual reports of companies in order to convince themselves that the reports have addressed issues relating to CSR disclosures. Allegrini and Greco (2011) provided evidence to support the assertion that frequent meetings of audit committees at least four times during the year help to improve upon the level of voluntary disclosures.

Huang and Thiruvadi (2009) found that an effective audit committee has to exercise professional care by working hard and meeting frequently in order to ensure good financial reporting quality. In addition, Li et al. (2012) found a significant positive association between the regular meetings of audit committees and the level of intellectual capital disclosure. Karamanou and Vafea (2005) reported that audit committees that met four times or more were found to help enhance the level of CSR disclosures. Furthermore, Kelton and Yang (2008) found a significant positive relationship between frequency of

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audit committee meetings and internet financial disclosure. Based on the findings of the aforementioned studies, the study hypothesizes that:

H_5: There is a relationship between frequency of meetings of audit committee and financial reporting quality

Chapter Summary

The chapter presented an in-depth literature review on the relationship between financial reporting quality and audit committee characteristics. The review focused of five audit committee characteristics - size of audit committee, gender diversity of audit committee, frequency of audit committee meetings, financial expertise of audit committees, and independence of audit committees. These five characteristics were used as proxies in examining the effectiveness of audit committees in terms of enhancing financial quality. Therefore, based on the mixed results of prior studies on the effect of these characteristics on financial reporting quality, the study developed hypothesis using the five characteristics to examine the extent of audit committee influence on financial reporting quality in this current study.

Also, the chapter discussed the concept of corporate disclosures and its major components – mandatory disclosures and voluntary disclosures. It also explained the concept of financial reporting quality and how it is enhanced by corporate governance mechanism such as the board of directors and its audit committee. The agency theory was employed to explain the relationship between audit committee and the company and how the audit committee in the interest of shareholders seeks to reduce information asymmetry and mitigate agency costs by monitoring the financial reporting practices of companies to ensure adequate, credible, transparent and quality financial reporting.

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CHAPTER THREE

RESEARCH METHODS

Introduction

The chapter presents the methodology adopted in achieving the results of the study. It involves a discussion of the research paradigm and approach employed for the study as well as the research adopted for the purpose of data collection and analysis. In addition, the chapter provides a detailed description of the population, sample and sampling techniques, and sources of data. Furthermore, the chapter presents the data analysis techniques and model diagnostics test employed in analysing the relationship between financial reporting quality and audit committee characteristics.

Research Paradigm and Approach

In conducting a social science research, it is important to acknowledge researcher's philosophical worldview of reality and how this will influence his/her views of reality and the approach to be adopted to achieve the specific research objectives. The philosophical worldviews of a researcher otherwise as the "research paradigm" refer to the philosophical assumptions that logically connect the entire research process from the conceptualization of the subject of study (problem), through data collection and analysis, to interpretation and discussion of results (Creswell, 2007).

Basically, there are two major research paradigms that researchers tend to draw on in explaining their philosophical view of what constitute reality and the nature of results appropriate for a particular study. The two main research paradigms widely used over time are the positivist paradigm (positivism) and interpretivist paradiagm (interpretivism). The positivist worldview assumes

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the social world as a concrete and objective one, which can be studied only through the utilization of methods that prevent human contamination of its apprehension or comprehension (Kheni, 2008). The positivists believe that reality is objective and objectivity is always associated with quantitative research based on the principles of the natural sciences and relies on the assumptions of an objectivist view of the social world (Kheni, 2008).

Moreover, the ontological assumption underpinning positivist view of the social reality is that the world is made up of distinct, recognizable events and that reality can only be construed by the interaction between one's senses and the events that happen. On the other hand, the epistemological assumption underpinning positivism holds that knowledge is derived from the use of one's senses or through experiments (Blaikie, 1993). The positivists believe researchers are independent of what is being researched and that knowledge is revealed and tested through direct examination of reality, which should be the core of every scientific endeavour (Boateng, 2014).

With regards to the interpretivist paradigm, Fisher (2010) contends that our understanding of social reality is not a simple account of what is; rather, it is something that people in societies and groups form from the following: their interpretation of reality; which is influenced by their values and the way they perceive the world; other people's interpretation; and the compromises and agreements that arise out of the negotiations between the first two. The interpretivists hold the view that social reality evolves from social interactions and knowledge is created, modified, and interpreted by human beings within the context of their immediate environment (Kheni, 2008). Proponents of this paradigm further argue that human beings are social animals because they

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socialize and interact and by so doing understand each other, know each other and share experiences. This implies that human or social problems can best be addressed through interaction with those affected by the problem and this forms the basis of the interpretivist worldview of social reality.

Considering the two major paradigms widely employed by social science researchers - positivist and interpretivist paradigms, the researcher employed the positivist paradigm as the philosophical worldview that underpins the study. The choice of this paradigm was on the premise that the positivist paradigm is characteristically deductive in nature, and is most appropriate for quantitative research as posited by Fisher (2010).

Research approach is a plan for conducting research, which entails the steps from broad assumptions to detailed methods of data collection, analysis, and interpretation (Creswell, 2014). Generally, researchers are faced with two major approaches to research depending on how they intend to collect and analyze data. The two main approaches to research are qualitative research and quantitative research (Fellows & Liu 2003; Naoum 2007; Creswell, 2012). Despite the wide difference between the two major approaches to research, some researchers recommend a blend of the qualitative and quantitative methods when the adoption of one approach is deemed insufficient in achieving the objectives of the study (Denzin & Lincoln, 2000; Creswell, 2003; Johnson & Onwuegbuzie, 2004; Creswell & Clark, 2007). Creswell and Clark (2007) advocate for a mixed methods research (a combination of the qualitative and quantitative approaches) because it gives the researcher more flexibility in terms of the choice of methods of data collection and analysis.

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Quantitative research is a type of research that draws on the positivist worldview of social reality and assumes that reality is objective (Zikmund, 2000). The quantitative approach to research adopts a deductive and objective view of a phenomenon and seeks to determine the extent of a problem or the existence of a relationship between aspects of a phenomenon by quantifying the variation into numerical data (Fellows & Liu, 2003; Naoum, 2007; Boateng 2014). Quantitative researchers seek to measure the perceptions or reactions of people a particular issue of questions, test hypothesis to concompany or reject a theory, manipulate large data using statistical techniques to permit relevant conclusion for the purpose of generalization (Phoya, 2012). Some of the common research designs employed in quantitative research include experimental research, correlational research, and survey research.

Qualitative research draws on an interpretivist view of social reality and adopts a subjective view about the social interaction between individuals and the world. It seeks to unveil underlying motivations, feelings, values, attitudes, and perceptions that influence how individuals react to a research problem or social phenomenon. Thus, qualitative research explores the meanings, attitudes, values, beliefs people associate with a phenomenon in order to establish a better understanding, rather than to test to support or disprove a relationship (Boateng, 2014). The approach emphasizes on open-mindedness and curiosity of the researcher (Chenail, 2000). Some major examples of qualitative research include case study, ethnography, and grounded theory.

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The mixed methods research involves the combination of quantitative and qualitative methods to collect and analyze data to achieve the objectives of a study (Denzin & Lincoln, 2000; Creswell & Clark, 2007; Morgan, 2006). Johnson and Onwuegbuzie (2004) describes the mixed-methods approach as a "logic of inquiry which includes the use of induction (or discovery of patterns), deduction (testing of theories and hypotheses), and abduction (uncovering and relying on the best of a set of explanations for understanding one's results)". Mostly, researchers who intend to triangulate their study results adopt the mixed methods on the premise that the two approaches can balance each other and therefore eliminate the limitations of each other.

It must be emphasized that the choice of a research approach largely depends on the research paradigm adopted, the specific objectives that the study is set out to achieve, the methods of data collection and analysis. Therefore, considering the specific objectives of the study and the fact the study draws on the positivist worldview of social reality, the quantitative approach was deemed appropriate for the study.

Research Design

Research design "sets out guidelines that link up the elements of the methodology adopted for a study namely; relating the paradigm to the research strategy and then the strategy to methods for collecting empirical data" (Denzin & Lincoln, 2000). It guides the researcher in the process of collecting data, analyzing and interpreting results of the study (Nachmias & Nachmias, 1993). For the purpose of data collection and analysis, the study employed a longitudinal research design using panel regression techniques to analyze the results of the study.

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Population

Population refers to "a collection of all possible individuals, objects or measurement that have one or more characteristics in common that are of interest to the researcher" (Arthur, 2012). The population from which the sample was drawn comprised all 42 listed companies on the Ghana Stock Exchange (GSE), within the following industries: Manufacturing (4), Finance and Insurance (15), Food and Beverage (8), Trading and Consumer Services (6), Mining and Petroleum (4), Pharmaceuticals (2), Information Technology (1), and Printing and Publishing (2).

Sample and Sample Selection Criteria

Sample is a fraction of the population which is representative of the population to the extent that it exhibits the same characteristics as the population (Arthur, 2012). The sample for the study comprised 30 listed companies from a population of 42 companies selected from eight major industries. The study was a panel spanning the period 2005 – 2017. The starting year of 2005 was chosen because the available annual reports for majority of the sampled companies were for the year 2005. The year 2017 was selected as the cut-off year because it was the most recent year for which annual reports of majority of the listed companies was available at the time of data collection.

Furthermore, the study adopted a three-point criteria in selecting the sampled companies - date of listing, availability of information on audit committee, and availability of annual reports. Using date of listing criterion, five companies (Comet Properties Ltd, Digicut Advertising and Production Ltd, HORDS Ltd, Meridian-Marshalls Holdings, Samba Foods Ltd) were

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excluded from the sample because they were listed in 2018. Also, three companies (Clydestone Ghana Limited, Ghana Limited, Mega African Capital Limited and Sam Woode) were excluded from the sample for lack of information on audit committees in their annual reports. In addition, four companies (NewGold Issuer Limited, AngloGold Ashanti Limited [AADS], EcoBank Transnational Incorporated, and Standard Chartered Bank Ghana Limited [Preference Shares]) were excluded from the sample for lack of annual reports. Therefore, a total of 12 companies out of the population of 42 listed companies were excluded from the final sample, leaving 30 listed companies used for the analysis. The list of the sampled companies was attached in Appendix 1.

Table 1: Sample Selection Criteria

Sampling Criteria	No. of Listed Companies
Initial population as at 31st December 2016	42
Less: Companies listed in 2018	(5)
Less: Companies without information on audit committees	(3)
Less: Companies without available annual reports	(4)
Final sample used for analysis	30

Source: Author compilation, (2021)

Source of Data

Data for study was collected from the annual reports of the sampled listed companies for the period 2005 – 2017. The study relied on annual reports because, by far, they constitute the main source of detailed and reliable financial and non-financial information of companies and have been widely

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used for studies of this nature (Zégal, Mouelhi & Louati, 2007). Annual reports are used as the formal medium for communicating detailed and very important information about the activities and performance of corporate organizations (Beretta & Bozzolan, 2004). Moreover, studies on corporate financial disclosures tend to heavily rely on annual reports as their main source of information on companies' financial reporting (Lin, Li & Yang, 2006; Qi & Tian, 2012; Soliman & Ragab, 2014; Vafeas, 2005; Pucheta-Martinez & Fuentes, 2007). For this study, annual reports for the sampled listed companies were sourced from the websites of the GSE and the individual companies.

Financial Disclosure

Several research studies (Xie et al., 2003; Juhmani, 2017; Saleh, Iskandar & Rahmat, 2007; Bédard, Chtourou & Courteau, 2004; Salleh & Haat, 2014; Baxter & Cotter, 2009) have investigated the relation between financial reporting quality and audit committee characteristics using discretionary accruals as a proxy for financial reporting quality or earnings management. Therefore, in measuring financial reporting quality, the study employs discretionary accruals as a proxy using the modified Jones Model modified by Dechow, Sloan and Sweeney (1995) to compute the value for discretionary accruals. The model segregates total accruals into a discretionary accruals and nondiscretionary accruals. The mathematical formulae for total accruals as computed as follows:

$TAC_{it}/A_{it-1} = \alpha i[1/A_{it-1}] + \beta_{1i}[(\Delta REV_{it} - \Delta AR_{it})]/A_{it-1} + \beta_{2i} [PPE_{it}/ A_{it-1}] + \varepsilon_{it}$ ………………..(1)

Where: TAC = Total accruals for company *i* in time *t*;

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ΔREV = Change in the revenues (sales) or the revenue in time *t* less revenue in time *t-1* for company j;

ΔAR = Change in accounts receivables in time *t-1* for company i;

PPE = The gross property, plant and equipment in time *t* for company *i*;

TA = Total assets in time *t-1* for company *i*.

ε_{it} = Error term in year *t* for company *i*.

i = 1,2,…, Company index

t = 1,2,…, Year index for the years included in the estimation periods for company i

It must be emphasized that the modified Jones Model is run cross-sectionally based on the company-year combinations to estimate non-discretionary and discretionary accruals. The estimated coefficients αi, *β*1*i*, *β*2*i* and *β3i* are company specific parameters which are used to estimate the non-discretionary accruals as follows:

NDAit = ai[1/Ait-1] + b1i[ΔREVit- ΔARit/Ait-1] + b2i[PPEit/Ait-1]………….. (2)

Therefore, the discretionary accruals then obtained as follows:

DACit = TACit/Ait-1 – NDAit …………………………………………………(3)

Description of Variables and Model Specification

This section describes the dependent variable, the explanatory variables and the control variables which formed the panel regression model. It presents a justification of the choice of the various variables used in the

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model and shows how they were measured. The dependent variables of the study were gender diversity, financial expertise of audit committee and independence of audit committee as financial reporting proxy by discretionary accrual. On the other hand, the independent variable was financial reporting quality index measured by financial disclosure quantity index and financial disclosure quality index.

Table 2: Definition and Measurement of Variables

Variable	Definition of Variable	Measurement
FRQI	Financial reporting quality index	Financial reporting quality index measured by financial disclosure quantity index and financial disclosure quality index
DAC	Discretionary accruals	The discretionary accruals estimated using the Modified Jones Model
GEN	Gender diversity of audit committee	1 if audit committee has a female member 0 if committee has no female representation
FREQ	Frequency of meetings	Number of audit committee meetings in a year
SIZE	Size of audit committee	Number of audit committee members
EXPERT	Financial expertise of audit committee	Percentage of directors with accounting or financial expertise
INDEP	Independent non-executive directors on the committee	Percentage of non-executive directors on audit committee
FSIZE	Size of company	Natural logarithm of total assets of the company
AUD	Type of auditor	1 if BIG4 auditing company or 0 otherwise

Source: Author compilation, (2021)

Panel Regression Techniques

The study employed panel regression techniques to establish whether there exists any significant relationship between financial reporting quality and audit committee characteristics. The dependent variable for the regression model will be financial reporting quality index (FRQI) while the independent

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variables will be size of audit committee (SIZE), gender diversity of audit committee (GEN), independence of audit committee (IND), frequency of meetings (FREQ), and financial expertise of audit committee (EXP), using size of company (FSIZE) and type of auditor (AUD) as control variables. The following panel regression model was employed to analyse the relationship between financial disclosure and audit committee characteristics:

$$DAC_{it} = \beta_0 + \beta_1 SIZE_{it} + \beta_1 GEN_{it} + \beta_2 IND_{it} + \beta_3 FREQ_{it} + \beta_4 EXP_{it} + \beta_5 FSIZE_{it} + \beta_7 AUD_{it} + u_{it}$$

Model Diagnostic Tests

The major assumptions of multiple regression tests were tested to determine whether any of the assumptions were violated and to help choose the appropriate regression models for the analysis. Among the diagnostic tests conducted were test for normality, multicollinearity test for heteroscedasticity, test for autocorrelation, and Hausman test.

Assumption of Multicollinearity

To test whether the independent variables correlate with themselves, the researcher chooses between Spearman’s rank correlation and Pearson correlation though the two report similar results based on the findings of prior studies. A problem of multicollinearity is said to exist where s correlation coefficient of the two variable exceeds 0.7 (Ho & Wong, 2001). In addition, another way of detecting multicollinearity was the use of the Variance Inflation Factor (VIF), which shows the degree an independent variable is explained by another independent variable within the model. Therefore, as a general rule of thumb, correlations greater than 0.7 and VIFs greater than 10 were deemed to suffer from the problem of multicollinearity.

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Assumptions of Heteroscedasticity

It is assumed that the variance of error term is constant for all the independent variables, and errors in prediction of the dependent variable is expected to be equal to 0 and constant. Therefore, if variance of errors depends on one or more of the independent variables there will be heteroscedasticity. To check for heteroscedasticity, Breusch-Pagan Test for Heteroscedasticity was conducted.

Assumption of Autocorrelation

The assumption of autocorrelation holds where independent errors in the prediction of value of the dependent variable are all independent from each other. Since, for any two different values for the independent variables are not supposed to correlate, it is found that they correlated then there is the case of serial correlation or autocorrelation. To check if there was autocorrelation, Wooldridge test for autocorrelation was conducted.

Hausman Specification Test

In panel regression, one has the option of choosing among three models: Pooled OLS model, the fixed effects (FE) or least squares dummy variable (LSDV) model, and the Random effects model (REM). The pooled OLS model assumes that the regression coefficients are the same for all individuals, which means that there is no correlation between the regressors and the disturbance or error term thereby ignoring the panel nature of the data by applying ordinary least squares (OLS). The model specifies constant coefficients like in cross-sectional analysis and assumes parameter homogeneity which implies that subjects have same intercept (α) which does

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not vary over time or across individuals though this assumption may prove otherwise.

The assumption underlying the pooled OLS model that the effect of each explanatory variable may remain constant over time is refuted by the argument of the proponents of FE model and the RE model that individual-specific effects capture unobserved heterogeneity across individual variables. Hence, it is necessary to check whether the unobserved individual-specific effects correlate with the regressors.

The FE model allows for heterogeneity among subjects by allowing each entity to have its own intercept value. When the unobserved individual-specific component is correlated with the regressors, using the OLS estimator to obtain the betas β would be inconsistent and therefore the FE model is deemed the most appropriate in this situation because it allows individual-specific effects to be correlated with the regressors. As the name implies, the FE model ensures that though the intercept may differ across subjects, each individual's intercept is time-invariant and does not vary over time.

The RE model also called the error components model (ECM) is based on the assumption that unobserved individual-specific effects are distributed independently of regressors and do not correlate. Under the RE model, each individual has the same intercept value and a composite error term $w_{it} = (\varepsilon_i + u_{it})$. The composite error term w_{it} consists of two components: ε_i, which is the cross-sectional or individual-specific error component, and u_{it} , which is the combined time series and cross-section error component and is sometimes called the idiosyncratic term because it varies over cross-section (i.e., subject) as well as time.

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To determine which of the two panel regression models; the FE model and RE model, was appropriate for the panel regression, the Hausman's specification test was conducted. The test was meant to detect if there was correlation between the error term and independent variables. Thus, to determine whether the estimates of the coefficients taken as a group are significantly different from the two regressions (fixed effects and random effects).

Chapter Summary

This chapter presented the methodology adopted in achieving the results of the study. It involved a discussion of the research paradigm and approach employed for the study as well as the research adopted for the purpose of data collection and analysis. In addition, the chapter provided a detailed description of the population, sample and sampling techniques, and sources of data. Furthermore, the chapter presented the data analysis techniques and model diagnostics test employed in analysing the relationship between financial reporting quality and audit committee characteristics.

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CHAPTER FOUR

RESULTS AND DISCUSSION

Introduction

The chapter presents the analysis of results and discussion of findings. The chapter was organised in line with the research objectives of this study. First of all, the chapter assesses the quantity of financial disclosures by listed companies in Ghana, using bar charts and bar graphs. Afterwards, the descriptive statistics for the variables of interest were presented. Subsequently, the chapter assessed the quality of financial disclosures by listed companies in Ghana. The chapter followed by examining the relationship between audit committee characteristics and financial reporting quality of listed companies in Ghana. The chapter ends with a chapter summary.

Quantity of Financial Disclosures by Listed Companies in Ghana

The average disclosure scores for the quantity of financial disclosures by each of the sampled listed companies for the period 2005 - 2017 were presented in Figure 1. The results as presented in Figure 1 showed an overall average quantity of financial disclosure score of 29.1% for all the sampled listed companies for the period 2005 - 2017.

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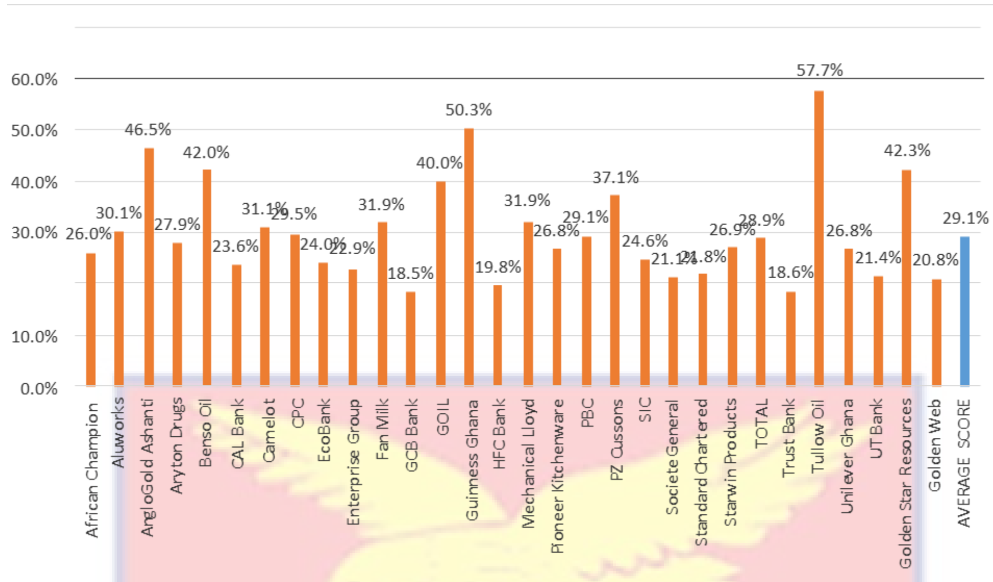

Figure 1: Quantity of financial disclosure by listed companies

Source: Author computation, (2021)

Moreover, Tullow Oil recorded the highest quantity of financial disclosure score of 57.7% for the period under review. In contrast, GCB Bank was found to be the lowest financial disclosing company over the period as indicated by the lowest quantity of financial disclosure score of 18.5%. The results of the highest financial disclosing companies and lowest financial disclosing companies were presented in Figure 2.

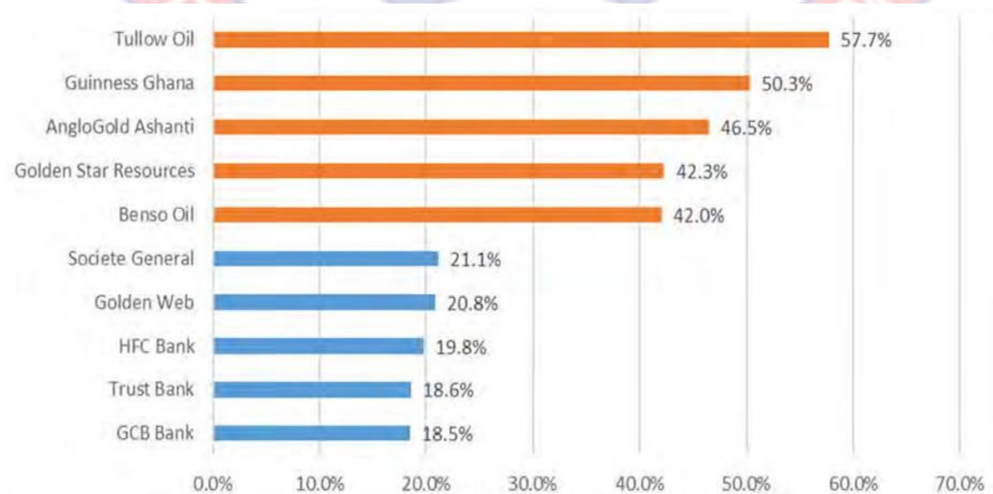

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Figure 2: Highest and lowest financial disclosing companies in terms of quantity

Source: Author computation, (2021)

Aside Tullow Oil emerging as the highest financial disclosing company, companies, such as Guinness Breweries, AngloGold Ashanti Limited, Golden Star Resources, and Benso Oil recorded relatively high disclosure scores of 50.3%, 46.5%, 42.3%, and 42.0% respectively. Aside GCB Bank which appeared to have the lowest average financial disclosure score of 18.5%, Trust Bank, HFC Bank, Golden Web, and Societe General followed with average financial disclosure scores of 18.5%, 19.8%, 20.8%, and 21.1% respectively. All the five lowest financial disclosing companies were from the finance/insurance industry.

Quality of Financial Disclosure by Listed Companies in Ghana

The results of the quality of financial disclosure scores by sampled listed companies were presented in Figure 3. As shown in Figure 3, the results show an overall average financial disclosure quality index of 54.0% for all sampled listed companies for the period 2005 - 2017.

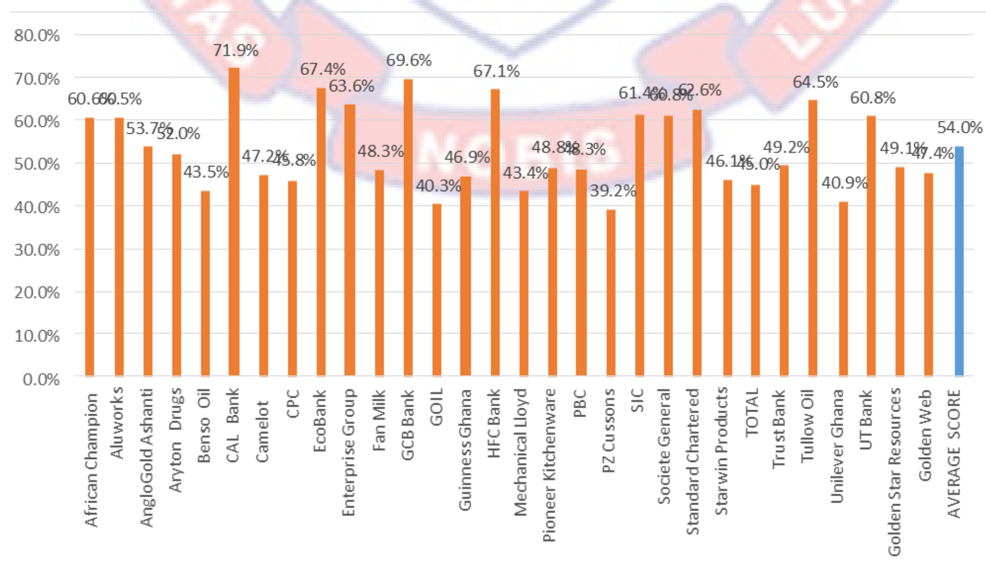

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Figure 3: Quality of financial information disclosed by listed companies

Source: Author computation, (2021)

This value (54.0%) is higher than the overall disclosure index for quantity of financial disclosed by listed companies (29.1%). This implies that though listed companies may appear to be disclosing limited volume of financial information as suggested by the average index of 29.1%, the quality of such information is high. While CAL Bank emerged as the company with the highest average financial disclosure quality score of 71.9%, PZ Cussons had the lowest average score of 39.2%. The results of companies with highest and lowest financial disclosure index for quality of financial disclosure were presented in Figure 4.

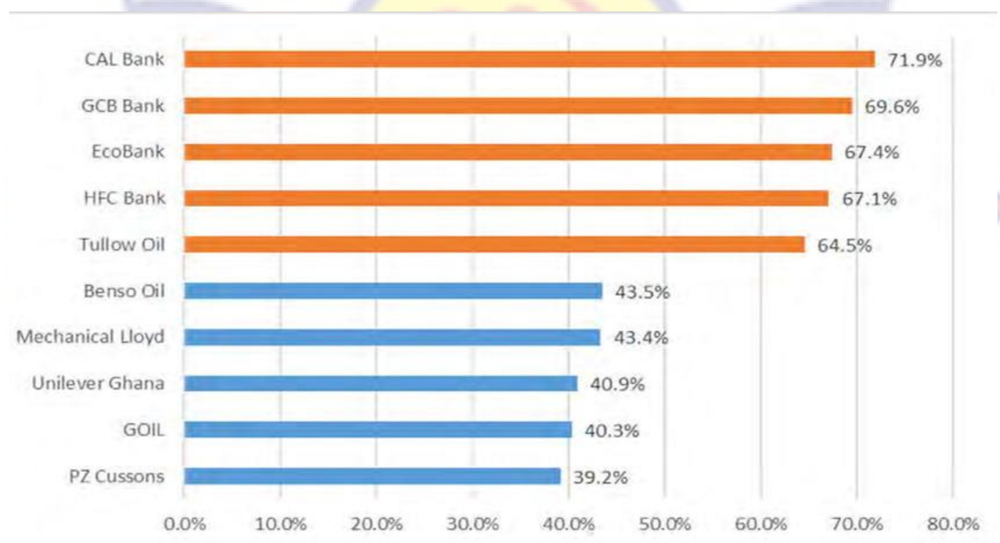

Figure 4: Highest and lowest financial disclosing companies in terms of quality

Source: Author computation, (2021)

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It can be observed from Figure 4 that CAL Bank had the highest average financial disclosure quality score of 71.9% followed by GCB Bank, EcoBank, HFC Bank, and Tullow Oil with average financial disclosure quality scores of 69.6%, 67.4%, 67.1%, and 64.5% respectively. The results showed that all the five companies but one (Tullow Oil) which were deemed to disclose the highest quality of financial information were financial institutions.

On the contrary, PZ Cussons recorded the lowest average financial disclosure quality score of 39.2%. This was followed by GOIL, Unilever Ghana Limited, Mechanical Lloyd, and Benso Oil with average financial disclosure quality scores of 40.3%, 40.9%, 43.4% and 43.5% respectively. The results suggested that while financial institutions disclose more quality financial information, manufacturing companies appear to disclose low-quality financial information in their annual reports.

Trends in Quantity of Financial Disclosure

The results in Figure 5 showed the trend of the quantity of financial disclosure by listed companies over the period 2005 - 2017.

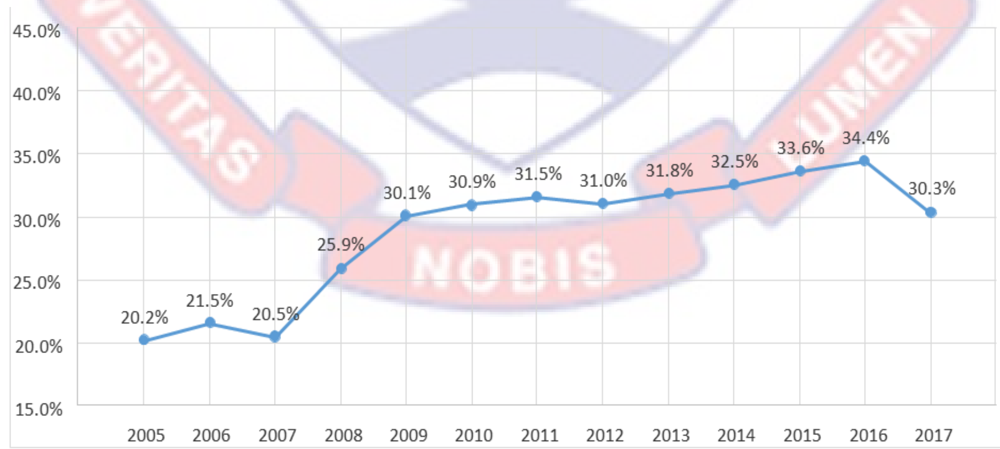

Figure 5: Trends in quantity of financial disclosure

Source: Author computation, (2021)

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An analysis of the extent of financial disclosure over the period 2005-2017 show an average quantity of financial disclosure score below 30.0%. However, the trend of disclosure for the period show a steady improvement but with some fluctuations along the line. Starting at the lowest average score of 20.2% in 2005, there was a significant improvement in 2008 with an average disclosure score of 25.9%. From 2009 to 2017, the quantity of financial disclosure was quite stable with marginal increases and slight falls over the period.

The average index for the period 2009-2017 was a little over 30.0%, ending the period at 30.3%. The trend of financial disclosure from 2012 showed a steady year to year increase in the average disclosure score over the period 2012 - 2016. The highest disclosure score for the period was recorded in 2016 with a yearly average score of 34.4%. Though from 2009 onwards the amount of financial disclosure has not been stable with the trend showing some fluctuations, the period witnessed an improvement in financial disclosure. The rise in the disclosure scores from 2009 could be attributed to Ghana’s adoption of the IFRS after year 2007.

It must be emphasised that the quantity of financial disclosure for the entire period was low considering the fact that the overall average disclosure score of 29.1% was below the average disclosure score of 78.0% for UK companies reported by Linsley and Shrives (2006). Also, considering other financial disclosure studies which recorded relatively high disclosure scores such as 75.08% by Beretta and Bozzolan (2004), 93.50% by Rajab and Handley-Schachler (2009) and 64.58% by Greco (2010), an average quantity of financial disclosure index of 29.1% was deemed to be low. This

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implies that despite the adoption of IFRS since 2007 and the increasing demand from stakeholders for more financial disclosures, there has not been a major improvement in financial disclosures by listed companies in Ghana over the last decade.

Trends in Quality of Financial Disclosure

The results in Figure 6 showed the trend in the quality of financial disclosure by listed companies over the period 2005 - 2017. It can be observed from Figure 6 that the overall average financial disclosure quality index of 54.0% for the period 2005 - 2017 is quite encouraging.

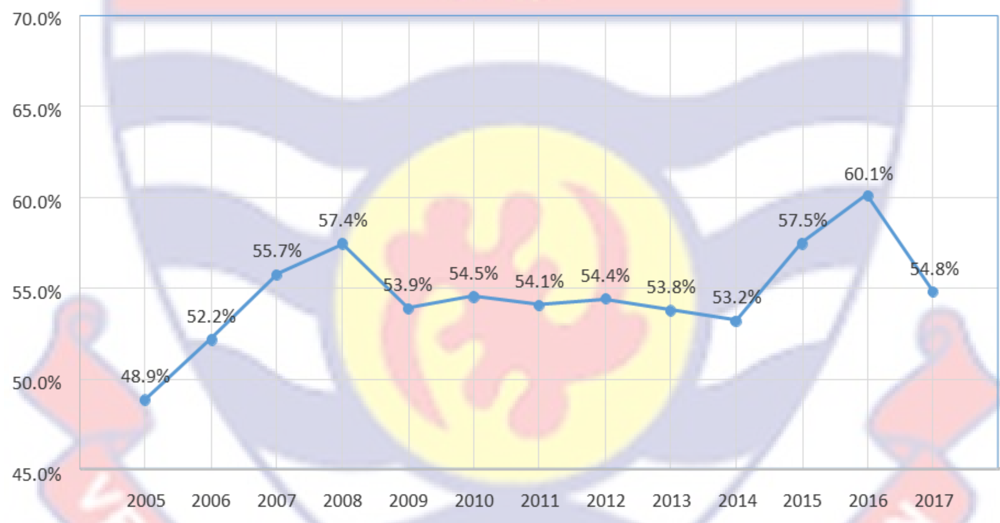

Figure 6: Trends in quality of financial disclosure

Source: Author computation, (2021)

The trend in financial disclosure quality for the period shows a steady improvement but with some slight falls along the line. The period witnessed the lowest average financial disclosure quality score of 48.9% in 2005 and the highest average financial disclosure quality score of 60.1% in 2016. Starting from the lowest average score of 48.9% in 2005, the period

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saw a steady improvement in the quality of financial disclosure attaining a maximum score of 57.4 % in 2008.

There was a drop in the average disclosure score from 57.4% in 2008 to 53.9% in 2009. The trend for the period 2009 - 2014 showed fluctuations in the quality of financial disclosure. Thus, the period witnessed marginal increases and falls in the quality of financial disclosure ending with the lowest average score of 53.2% in 2014. Again, there was a significant increase in the quality score in the years 2015 and 2016 with the average scores of 57.5% and 60.1% respectively.

Financial Disclosure by Specific Industries

The results of financial disclosure across the seven industries from which the sampled listed companies were selected from, were presented in Figure 7.

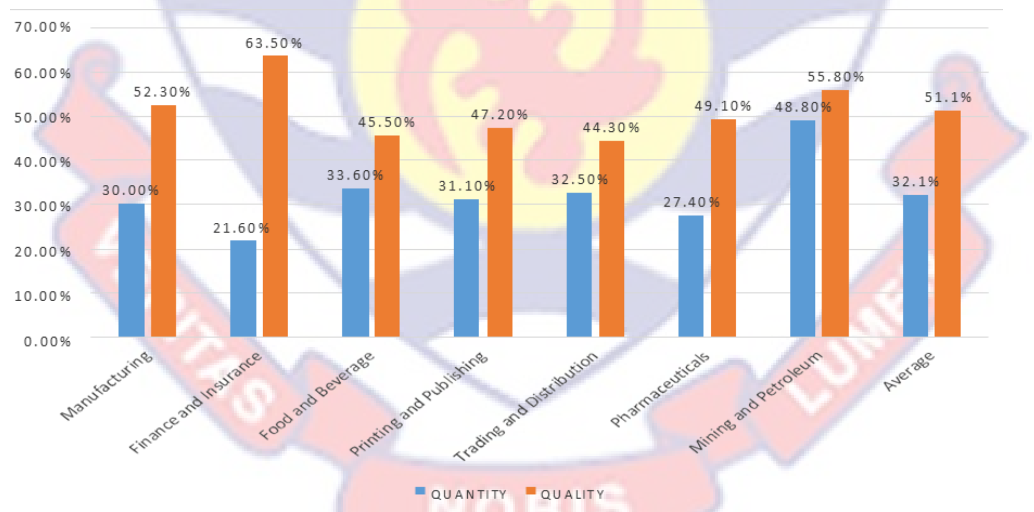

Figure 7: Financial disclosures by specific industries

Source: Author computation, (2021)

The results show an overall industry average financial disclosure score of 32.1% which implies that on average companies across all industries disclose 32.1% of financial information in their annual reports. With regards to the

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quantity of financial disclosure by companies in the seven industries, companies in the mining and petroleum industry appear to disclose more financial information with an overall average disclosure score of 48.8%. This percentage was followed by the companies in the food and beverage industry with an average disclosure score of 33.6%, and trading and distribution industry with an average score of 32.5%.

Using the overall industry average disclosure score as a benchmark, it can be inferred from Figure 7 that three industries comprising the mining and petroleum industry, food and beverage industry, and the trading and distribution industry were the high financial disclosing industries in Ghana. This is based on the fact that they all had average financial disclosure scores above the overall industry average disclosure score of 32.1%. These industries comprised a total of 13 companies within the sampled listed companies suggesting that 43.3% of the sampled listed companies disclose financial information above the overall industry average disclosure score.

On the contrary, the printing and publishing, manufacturing, pharmaceuticals, and finance and insurance industries had average disclosure scores below the overall industry average of 32.1%. This results suggested that the four industries, comprising 17 companies included in the sampled listed companies disclose less financial information in their annual reports. This result implies that 56.7% of the sampled listed companies disclose financial information below the overall industry average disclosure score. It can be deduced from the results that the

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majority of listed companies in Ghana do not disclose adequate financial information in their annual reports.

In terms of the quality of financial disclosure, the results as presented in Figure 7 show that on average 51.1% of financial information disclosed by companies in all the industries was of high quality. It emerged that the finance and insurance industry disclosed more quality financial information than the rest of the industries as indicated by the highest quality disclosure score of 63.5%, followed by the mining and petroleum industry with an average quality score of 55.8% and the manufacturing industry with an average quality score of 52.3%.

It must be noted that 19 of the sampled listed companies belonged to these three industries which indicate that 63.3% of the sampled listed companies disclose high-quality financial information. This is based on the fact that their average quality disclosure scores were above the overall industry average quality score of 51.1%. From the foregoing, it can be deduced that majority of listed companies in Ghana disclose high-quality financial information though the quantity of financial disclosure, in general, appears to be low.

In terms of low quality of financial disclosure, the trading and distribution industry appeared to disclose less quality financial information as indicated by the lowest average quality score of 44.3%. Three other industries - the pharmaceutical, printing and publishing, and the food and beverage industries had their average quality scores below the overall industry average score of 51.1%. This implied that the quality of financial information disclosed by companies in these industries was low. The four industries

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contain 11 of the sampled listed companies representing 36.7% of the sampled companies. This suggests that 36.7% of the sampled listed companies disclosed less quality financial information using the overall industry average quality score as a benchmark.

Descriptive Statistics

The summary descriptive statistics of quantity and quality of financial disclosure and audit committee characteristics of the sampled listed companies were presented in Table 3.

Table 3: Descriptive Statistics

Variable	Mean	Std. Deviation	Min	Max
FDIQuantity	0.2912	0.1132	0.1143	0.6571
FDIQuality	0.5398	0.1069	0.3182	0.7273
Size of audit committee	3.7619	1.1303	2.0000	7.0000
Frequency of meetings	3.9556	0.8127	3.0000	6
Expertise	0.6791	0.3068	0.2000	1.0000
Gender	0.2019	0.3098	0	1.0000
Independence	0.9058	0.1954	0.3333	1.0000
Size of company	7.9495	1.2424	4.2500	10.6300
Auditor Type	0.6317	0.6317	0	1.0000

Source: Author computation, (2021)

The summary descriptive statistics of the dependent and independent variables as well as the control variables used in the regression models were presented in Table 3. The results showed that the least quantity of financial disclosure by a listed for the period under review was 11.3% with the maximum financial disclosure score being 65.7%. Also, the quality of

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financial information disclosed by listed companies ranged from a minimum of 31.8% to a maximum of 72.4%. On average, listed companies disclosed 29.1% (mean = 0.2912) of financial information with the quality of such financial information at 54.0% (mean = 0.5398).

Though the average score for quantity of financial disclosure appear to show some improvement considering the average score of 24.28% reported by Appiagyei et al. (2016) for the period 2004 - 2011, it is still deemed to be low when compared with an average score of 78.0% reported by Linsley and Shrives (2006) and 93.50% by Rajab and Schachler (2009) for UK companies, as well as 75.08% by Beretta and Bozzolan (2004), and 64.58% by Greco (2010) for Italian companies. However, the overall average disclosure score for quality of financial disclosure appears to be high when compared to the average disclosure quality score of 36.0% by listed companies in Egypt as reported by Hassan (2017). This result can partly be attributed to the lack of regulatory requirements for listed companies in Ghana for the disclosure of non-financial information.

In analysing the audit committee characteristics, the study found that, on average, audit committees were composed of four members with a minimum and maximum membership of two and seven respectively. This finding suggested that majority of listed companies in Ghana have four or more members composing their audit committees in line with the recommendations of FRC (2012). Consistent with the recommendations of PwC (1993) and KPMG (1999), the results showed that, on average, audit committees of listed companies meet four or more times within a year

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with the minimum number of meetings being three and the maximum being six times.

Furthermore, it was revealed that, on average, audit committees of listed companies have 67.9% of their members having some level of financial expertise as recommended by the SEC and SOX as well as FRC (2012) of UK. With regards to gender diversity, it was found that, on average, audit committees had 20.2% female representation with some committees having no female representation at all. In addition, the results showed that, on average, 90.6% of the membership of audit committees was independent non-executive directors. This finding was consistent with the recommendations of SOX and FRC (2012) that, to ensure the independence and effectiveness of audit committees, they should be composed mainly of independent non-executive directors who cannot be easily influenced by management. With regards to the control variables, the results suggested that, on average, 63.2% of the sampled companies were audited by the BIG4 auditing companies. The mean size of the sampled companies was 7.9 with a minimum and maximum size of 4.3 and 10.6 respectively.

Correlation Analysis

The results of the correlation analysis of dependent and the independent variables were presented in Table 4.

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Table 4: Correlation Matrix

Variable	Quantity	Quality	Size	Freq	Expert	Gen	Indep	Fsize	Aud
Quantity	1								
Quality	-0.299	1							
Size	0.998*	0.094*	1						
Freq	0.036	0.400***	0.120**						
Expert	0.005	0.083	-0.246***	-0.024	1				
Gen	-0.094*	0.0450	-0.108**	-0.205***	0.285***	1			
Indep	-0.285***	0.238***	0.042	0.115**	0.275***	0.239***	1		
Fsize	0.086	0.245***	0.296***	0.476***	-0.138**	0.129**	0.152***	1	
Aud	0.516***	-0.688***	0.055	-0.374***	0.011	-0.175	-0.369	-0.360	1

***significant at 0.01 level (1%), **significant at 0.05 level (5%), *significant at 0.1 level (10%)

Source: Author computation, (2021)

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The correlation coefficients of dependent and independent variables as presented in Table 4 show a positive relationship between quantity of financial disclosure and the independent variables with the exception of gender diversity and independence of audit committees showing low negative correlations. Also, the quality of financial disclosure is positively correlated with all the independent variables with the exception of one control variable (type of auditor) showing a high negative correlation.

As expected, size of audit committee showed a high positive correlation with quantity of financial disclosure. This result implied that the larger the size of audit committee, the higher the level of financial disclosure. Moreover, the correlations between the independent variables were found to be low with positive and negative coefficients all below 0.3. This result suggested that there was no case of multicollinearity between the independent variables.

Regression Results for Quantity of Financial Disclosure

The regression results to establish the relationship between quantity of financial disclosure and audit committee characteristics as estimated by Model 1 were presented in Table 5 as follows:

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Table 5: Random Effects Regression Results for Quantity of Financial Disclosure

Variable	Coef.	Std. Err.	Z	P>|z|	VIF
Size	0.00892	0.00659	1.35	0.176	1.22
Frequency	-0.00055	0.00904	-0.06	0.952	1.62
Expertise	0.46439**	0.02293	2.02	0.0403	1.30
Gender	-0.00165	0.02811	-0.06	0.953	1.36
Independence	0.09733*	0.05754	-1.69	0.091	1.32
Company size	0.04905***	0.00866	5.66	0.000	1.64
Industry	0.15161***	0.03067	4.94	0.000	1.50
Constant	-0.16400*	0.09713	-1.69	0.091	
R-square					
Within	0.1618				
Between	0.4715				
Overall	0.3408				
Wald chi2 (7)	69.19	Prob > chi2	0.0000		
Observations	315				

***significant at 0.01 level (1%), **significant at 0.05 level (5%), *significant at 0.1 level (10%)

Source: Author computation, (2021)

The regression results as presented in Table 5 showed an R-square value of 0.3408 which implied that 34.08% of the variation in the quantity of financial disclosure by listed companies can be explained by the independent variables in the regression model. The results show no significant relationship between size of audit committee and quantity of financial disclosure. This

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finding means that large size of audit committee does not necessarily influence the volume of financial disclosure by a company. Hence, the hypothesis that there is a relationship between size of audit committee and the level of financial disclosure is rejected. This result is consistent with the findings of Muzahem (2011), Mangena and Pike (2005) who found no significant relationship between size of audit committee and voluntary disclosure as well as Othman et al. (2014) who found no significant relationship between size of audit committee on voluntary ethics disclosure.

However, the finding contradicts prior studies by Abraham and Cox (2007), Neri (2010), Madi et al. (2014), Viljoen et al. (2016) who found a significant positive relationship between audit committee size and voluntary disclosure. Also, the finding is inconsistent with that of Appuhami and Tashakor (2017) who found a significant positive relationship between size of audit committee and the volume of CSR disclosure. Moreover, the finding appears to be inconsistent with the resource dependency theory that suggests that large audit committees should have the ability to commit greater resources and authority to effectively perform their responsibilities towards enhancing financial reporting. This result may be attributed to the situation where large audit committees lead to delays in decision making due to numerous diverse opinions from a large number of members on simple matters.

There was no significant relationship between the frequency of meeting of audit committees and the quantity of financial disclosure. Thus, the finding rejected that hypothesis that frequency of meetings of audit committee influence the volume of financial disclosure. This finding implies

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that audit committee activities in terms of meetings do not necessarily enhance its monitoring role towards greater financial disclosure. However, this result is inconsistent with the recommendation of FRC (2012) that members of audit committees should meet regularly within a year to allow them ample time to thoroughly deal with the issues entrusted to them by the board of directors.

Also, the finding contradicts previous studies which reported a strong relationship between frequency of audit committee meetings and financial disclosures (Pucheta-Mart´ınez & De Fuentes, 2007), CSR disclosure (Appuhami & Tashakor, 2017; Karamanou & Vafea, 2005), voluntary disclosures (Greco, 2011) and intellectual capital disclosure (Li et al., 2012). This may be due to the fact that audit committee tends to focus more attention on other financial reporting and internal control issues at the expense of financial disclosures during their meetings.

The result showed a positive relationship between financial expertise of audit committee and quantity of financial disclosure. This relationship was also found to be significant therefore supporting the hypothesis that financial expertise of audit committee influences the level of financial disclosure. This result was consistent with the provisions of SOX and FRC (2012) which recommended that for an audit committee to be very effective in carrying out its oversight role of enhancing financial reporting quality, it should have at least one of its members having some level of financial expertise. This, finding, however, contradicts that of Appuhami and Tashakor (2017); Madi et al. (2014); and Othman et al. (2014) who found no significant relationship between financial expertise of audit committees and CSR

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disclosure, corporate voluntary disclosure, and voluntary ethics disclosure respectively.

This finding may be attributed to the fact that issues relating to financial disclosure require persons with sound knowledge and expertise in accounting and finance who are capable of effectively identifying and evaluating financial information in order to make appropriate recommendations towards enhancing financial reporting. Also, it may well be that unlike members without financial expertise who may overlook some financial reporting violations without knowing the consequences of such actions, financial experts on the committee are expected to carefully scrutinize the financial reporting framework of the company being mindful of the capital market implications of quality financial reporting.

The relationship between gender diversity of audit committee and quantity of financial disclosure was found to be statistically insignificant. This result implied that quantity of financial disclosure does not necessarily improve with a large number of female representations on the committee. This may well mean that large female representation tends to stifle the effectiveness of the committee thereby negatively affecting the quantity of financial disclosure. Hence, the hypothesis that stated that there is a significant relationship between gender diversity of audit committee and financial reporting quality is rejected.

This refutes the argument that gender diversity brings on board important human resource and varied opinions that help to improve the work of audit committees as posited by Appuhami and Tashakor (2017). Also, the finding is inconsistent with the assertion of Bernardi et al. (2019) that gender

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diversity is a very important human characteristic that improves the effectiveness of teams and enhances the decisions of audit committees due to the diversity of opinions from male and female members.

However, the finding supported the position of Smith et al. (2006) who found no significant relationship between gender diversity of audit committee and voluntary disclosure. This insignificant result of gender diversity may be due to the sensitive and more cautious nature of women when making decisions. This attitude may tend to delay the work of the committee since audit committees with more female representation may be affected by the somewhat slow and overly cautious decision-making process of its female members.

It is interesting to note that the relationship between independent non-executive directors and the quantity of financial disclosure was not only positive but statistically significant. This demonstrates the fact that audit committees composed mainly of independent non-executive directors were likely to have a strong influence on the quantity of financial disclosure by demanding more financial disclosures. Hence, consistent with the agency theory, this result suggested that independent non-executive directors tend to seek the welfare of stakeholders of the company and therefore will demand more financial disclosures since they cannot be easily influenced by management. The finding supported that of Akhtaruddin and Haron (2010), Mangena and Tauringana (2007), Patelli and Prencipe (2007) who found that independence of audit committee is positively associated with improved voluntary disclosure.

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The finding suggests that when members of an audit committee are fully independent of management, they tend to work independently and objectively devoid of any managerial influences. Also, independent non-executive directors of an audit committee are in a better position to effectively monitor and scrutinize management's financial reporting practices and corporate decisions without any fear or favour. This helps in enhancing the credibility and transparency of financial and non-financial disclosures with the aim of reducing information asymmetry.

With regards to the control variables, the results showed that company size was positively related to quantity of financial disclosure with this relationship being statistically significant. This result implied that large companies disclose more financial information to meet the demands of their numerous stakeholders. Thus, the finding is consistent with the stakeholder theory that suggested that companies disclose more information on both their financial and non-financial activities in order to satisfy the information needs of their stakeholders.

Also, the finding supports the position of Beattie et al. (2004), Mohobbot (2005), Deumes and Knechel (2008) who found a positive relationship between company size and the level of risk disclosure. Concurring with Hassan (2017), the positive relationship between company size and quantity of financial disclosure can be attributed to the fact that large companies have the financial muscle to spend more on information production and distribution as compared to smaller companies. Also, in order to mitigate challenges associated with information asymmetry and agency costs, large companies tend to disclose more financial information to their

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stakeholders. Similarly, the type of auditor that audits a company's financial statement was found to have a positive relationship with quantity of financial disclosure .

Regression Results for Quality of Financial Disclosure

The regression results for the relationship between quality of financial disclosure and audit committee characteristics as estimated by the Model 2 were presented in Table 6 as follows:

Table 6: Random Effects Regression Results for Quality of Financial Disclosure

Variable	Coef.	Std. Err.	Z	P>|z|	VIF
Size	0.01006**	0.00465	2.17	0.030	1.22
Frequency	-0.00334	0.00626	-0.53	0.594	1.62
Expertise	0.03485**	0.01588	2.19	0.028	1.30
Gender	-0.05991***	0.20150	-2.97	0.003	1.36
Independence	-0.00928	0.47724	-0.19	0.846	1.32
Company size	0.01884***	0.00658	2.73	0.004	1.64
Industry	-0.14299***	0.02725	-5.25	0.000	1.50
Constant	0.45421*	0.07810	5.82	0.091	
R-square					
Within	0.0808				
Between	0.5493				
Overall	0.4617				
Wald chi2 (7)	58.54	Prob > chi2	0.0000		
Observations	315				

***significant at 0.01 level (1%), **significant at 0.05 level (5%), *significant at 0.1 level (10%)

Source: Author computation, (2021)

The regression results as presented in Table 6 showed an R-square value of 0.4617 which implied that 46.4% of the variation in quality of financial

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disclosure is explained by the independent variables in the regression model. Moreover, the results showed a positive association between size of audit committee and quality of financial disclosure. Also, this relationship was found to be statistically significant implying that size of audit committee strongly influences the quality of financial disclosure. Hence, the hypothesis was accepted consistent with the proposition of the legitimacy theory that suggests that large board size and by extension large audit committees provide the avenue for members who are interested in financial disclosures to demand more improvement in the quality and quantity of financial disclosure.

Moreover, this result is consistent with prior findings of Dhaliwal et al. (2010) who suggested that size of audit committee significantly influenced the quality of financial reporting. The positive association between size of audit committee and quality of financial disclosure may be explained from the premise that large size audit committees bring diversity of skills, expertise and opinions to the work of the committee which enhances its effectiveness and the quality of discussions and decisions. Also, the large size of audit committees affords members the laxity and time to delve deep into issues of financial disclosure and effectively scrutinize and evaluate the quality of the financial disclosures since the workload will be divided among a relatively large number of members.

The relationship between frequency of audit committee meetings and quality of financial disclosure was found to be statistically insignificant. This contradicted the recommendation of FRC (2012) that suggest that regular meetings of audit committees allow them ample time to thoroughly deal with the issues entrusted to them by the board of directors. Also, the result is

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inconsistent with that of Appuhami and Tashakor (2017) who reported a positive and significant relationship between audit committee meetings and the quality of CSR disclosure. The finding suggested that more audit committee meetings tend to affect the quality of financial disclosure more especially when these meetings tend to focus more on financial disclosures at the expense of the quality of financial disclosure.

Furthermore, the results showed a positive relationship between financial expertise of audit committee and quality of financial disclosure. This result implied that quality of financial disclosure significantly improves when majority of audit committee members have financial expertise. The result is consistent with that of Akhtaruddin and Haron (2010), Madi et al. (2014) who found a positive relationship between financial expertise of audit committee members and quality of risk disclosure.

It is believed that with their in-depth knowledge in finance/accounting, members with financial expertise can elevate the standard of discussion and evaluation of financial information being mindful of the capital market implications. Hence, the finding could be attributed to financial experts' commitment to quality financial reporting which guides their corporate decisions. Also, audit committees with more financial expertise can thoroughly analyse annual reports of the company and provide differing but complementary viewpoints on financial disclosures which helps to enhance the quality of such disclosures.

With regards to gender diversity, the results showed a negative but significant relationship between the number of females on audit committee and the quality of financial disclosure. This may suggest that the presence

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of females on audit committees does not necessarily improve the quality of financial disclosure, but may as well affect the quality of financial disclosure. This result implied that in constituting the membership of audit committees, board of directors should be careful in increasing the number of female representation since a large number of females may tend to negatively affect the quality of disclosure.

While it may be argued that gender diversity improves the level of discussion and debate on sensitive and emotional issues which may not gain much attention from an all-male audit committee (Bernardi et al., 2019), the finding seems to refute this assertion. However, the finding is consistent with previous studies which reported a negative association between gender diversity and quality of risk disclosure (Gallego-Álvarez & Pucheta-Martínez, 2021); and voluntary disclosure (Smith et al., 2006).

The number of independent non-executive directors on audit committees showed a negative relationship with quality of financial disclosure. However, the relationship was found to be insignificant implying that the number of independent non-executive directors on an audit committee does not necessarily improve quality of financial disclosure. This result is, however, inconsistent with the agency theory which proposes that independent non-executive directors who are free from the manipulation and influence of management will seek the interest of stakeholders and ensure an improvement in the quality of financial reporting. The finding corroborated the position of Ismail and Rahman (2011), Haat et al. (2008) who reported that the number of non-executive

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directors on audit committees do not have any significant influence on the quality of financial disclosure.

On the other hand, the finding contradicted that of Lajili and Zeghal (2011) who reported a significant positive relationship between independent non-executive directors and the quality of financial reporting. In terms of the control variables, while company size showed a positive association with the quality of financial disclosure, type of auditor was negatively associated with quality of financial disclosure. However, both relationships were found to be significant. The findings suggest that while large companies may disclose more financial information to reduce information asymmetry and mitigate agency cost, the quality of such disclosures was also deemed to be high. On the contrary, the quality of financial disclosure by non-financial companies was found to be low as compared to financial companies.

Chapter Summary

The chapter presented the analysis of the results of the study and discussion of the findings. The quantity and quality of financial disclosure by listed companies for the period 2005-2017 were presented with the average disclosure scores for quantity of financial disclosure and quality of financial disclosure being 29.1% and 54.0% respectively. It was shown that non-financial companies disclose more financial information than financial companies. However, the quality of financial disclosure by financial companies was found to be higher than that of non-financial companies. The trend in quantity of financial disclosure for the period show a steady improvement but with some fluctuations along the line.

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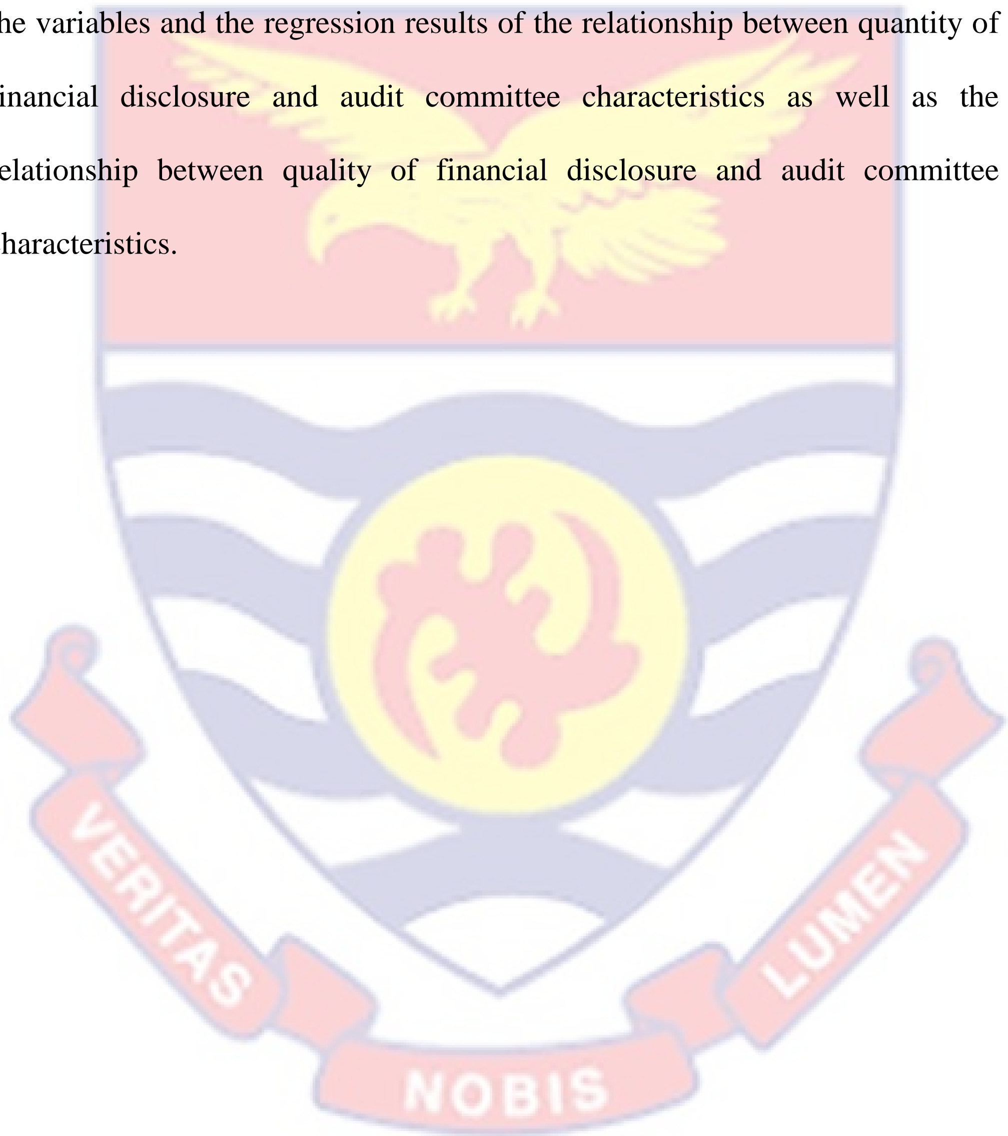
Also, the trend in financial disclosure quality for the period showed a steady improvement but with some slight falls along the line. The chapter presented a correlation matrix that suggested that there was no multicollinearity among the independent variables considering the low VIFs of the variables. Furthermore, the chapter presented the descriptive statistics of the variables and the regression results of the relationship between quantity of financial disclosure and audit committee characteristics as well as the relationship between quality of financial disclosure and audit committee characteristics.



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CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

Introduction

This chapter presents a summary of the study highlighting the purpose of the study, research objectives, the methodology employed, and the key findings of this research. Subsequently, the conclusions and recommendations drawn from the findings are provided. It also presents the implications of the study for research, practice, and policy as well as future research directives.

Summary of the Key Findings

The purpose of the study was to examine the effect of audit committees on financial reporting quality. Specifically, the study sought to achieve the following objectives: to assess the quantity of financial disclosures by listed companies in Ghana, to assess the quality of financial disclosures by listed companies in Ghana, and to examine the relationship between audit committee characteristics and financial reporting quality of listed companies in Ghana. Research approach was quantitative, and research design was longitudinal using panel regression techniques.

The results of the content analysis showed an overall average financial disclosure index of 29.1% for the quantity of financial disclosure for the period 2005-2017. This figure was deemed to be low when compared to financial disclosure indexes in other jurisdictions such as the UK, Italy and Japan as seen in the literature. The least financial disclosing company disclosed 11.4% of financial information while the highest disclosing company disclosed 65.7% of financial information in their annual reports. The

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trend in quantity of financial disclosure showed a steady improvement but with some fluctuations.

The study revealed that, on average, non-financial companies disclose more financial information than financial companies. Moreover, in terms of individual companies, Tullow Oil Ghana emerged as the highest financial disclosing company while GCB Bank emerged as the least financial disclosing company. With regards to quality of financial disclosure, the results showed an overall average disclosure index of 54.0% for quality of financial disclosure. The average score for quality of financial disclosure appears to be high when compared to the average quality of disclosure score of 36.0% by listed companies in Egypt as reported by Hassan (2017).

In terms of the relationship between audit committee characteristics and financial disclosure, it was found that large audit committees may not necessarily increase the quantity of financial disclosure but rather enhance the quality of financial disclosure. Thus, large audit committees will influence financial disclosure by demanding more quality financial information. Financial expertise of audit committees appeared to have a strong influence on the quantity and quality of financial disclosure, such that companies with more financial experts on their audit committees made more financial disclosures with the quality of such disclosures deemed to be very high.

Furthermore, the results showed that the presence of more independent non-executive directors on audit committees may not necessarily enhance the quality of financial disclosure but encourage more financial disclosures in terms of the quantity of financial information. This can be attributed to the fact that while some non-executive directors on the audit committee may not have

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financial expertise to make major contributions towards the quality of financial disclosure, they may however, call for more quantity of financial information to be disclosed with the aim of reducing information asymmetry between management and stakeholders. However, the results showed that frequency of audit committee meetings and gender diversity of audit committees does not necessarily improve the quantity and quality of financial disclosure. For instance, it was found that more female representation on audit committees rather stifles the effectiveness of the committee thereby affecting the quality of financial disclosure.

Conclusions

The study has shown that despite the increasing demand for more financial disclosures in terms of the quantity of financial information, the volume of financial disclosure by listed companies in Ghana is still low despite improvement in the quality of financial disclosure. The study concludes that an audit committee with the relevant characteristics is an effective corporate governance mechanism that can help to protect the interest of shareholders through the effective monitoring of financial disclosure practices of companies with the aim of reducing information asymmetry and agency cost. Thus, the study emphasises that even in the absence of mandatory financial disclosure requirements for listed companies in Ghana, audit committees with adequate characteristics could help in improving the volume and quality of financial disclosure by listed companies.

Recommendations

Despite the call for more financial disclosure by listed companies in recent times, the volume of financial disclosure by companies in Ghana

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appear to be still low. Therefore, it is recommended that stakeholders should demand more financial disclosures from listed companies by mounting enormous pressure on them to disclose more. Moreover, companies who fail to disclose more financial information should be punished by investors by labelling such companies as high-financial companies, offering low prices for their stocks, and granting them capital at a higher cost. It is believed that when investors adopt such punitive measures against listed companies, they would be compelled to make more financial disclosures. It was found that listed companies appear to focus more on the disclosure of financial information in order to satisfy the requirement of IFRS 7 while leaving out non-financial information.

But, the disclosure of non-financial information such as strategic financial, operational financial, environmental financial, integrity financial, compliance financial, etc. is very necessary for providing stakeholders with a holistic view of the company's financial profile. Hence, it is recommended that listed companies should disclose more information. Furthermore, the board of directors and management of listed companies must come to terms with the fact that the adoption of IFRS makes their annual reports comparable to financial reports of foreign companies across the globe who adopt IFRS.

Hence, in the face of global competition, cross-country listing, and the possibility of attracting foreign investors, it is only appropriate that listed companies in Ghana make more voluntary financial disclosures. This will help in satisfying the financial information needs of investors and other stakeholders who will seek to compare the annual reports of such

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companies to international best practices in terms of financial disclosures when making their economic buy or sell decisions.

The study revealed that audit committee characteristics such as size, independence of audit committee, and financial expertise of audit committees have a strong influence on not only the quantity of financial disclosure, but the quality of financial information disclosed by companies as well. Hence, to ensure the effectiveness of audit committees in enhancing the quality of financial disclosures, it is recommended that the board of directors in constituting the membership of audit committees should take into serious consideration these audit committee characteristics.

Implications of the Study

The study appears to be the first empirical study that attempts to examine the effect of audit committee characteristics on the quantity and quality of financial disclosure in Ghana, and also one of the few studies in this direction in the financial disclosure literature in general. Hence, the study proves to be very relevant and makes significant contributions to research, practice and policy. The specific implications of the findings of the study are presented in the sections that follow:

Implications to Research

By examining the effect of audit committee characteristics on financial disclosure, the study supports the agency theory which proposes that an audit committee is an effective corporate governance mechanism that influences financial disclosure, thereby reducing information asymmetry. Hence, the study contributes to the debate on the effectiveness of audit committees in enhancing the volume and quality of financial disclosure by companies.

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Secondly, studies on the quality of financial disclosure are very limited. Researchers tend to focus more on the quantity of financial disclosure than the quality of financial disclosure. Hence the study makes a major contribution to enriching the literature on the quality of financial disclosure as well.

Implications for Practice

In terms of practice, this study provides an insight to board of directors on the need to strengthen its audit committee to enhance their monitoring role of improving both quantity and quality of financial disclosure by listed companies. Also, average disclosure scores for quantity and quality of financial disclosure as well as the individual company disclosure scores can serve as a guide to the board of directors of the sampled listed companies in determining the volume of financial disclosures in annual reports over the period so that they can improve on it where necessary.

Implications for Policy

The study contributes to policy by emphasizing the relevance of audit committees in enhancing financial disclosures by listed companies. Thus, the study provides evidence that an audit committee is a very effective corporate governance mechanism in terms of monitoring and enhancing the financial disclosure practices of companies. The study has shown that the strength of an audit committee in enhancing quantity and quality of financial disclosure is contingent on its size, financial expertise, and number of independent non-executive directors. Therefore, these characteristics should be highly considered in the appointment of audit committee members by the board of directors since the committee’s effectiveness is contingent on them.

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Considering the strong influence of financial expertise of audit committees on financial disclosure, the study provides evidence to support the proposition that membership to audit committees should be based largely on the financial expertise of members of the board. This implies that as part of listing requirements of the Ghana Stock Exchange, listed companies should be mandated to have more persons with financial expertise on their boards so that such people can be subsequently appointed onto audit committees to enhance the volume and quality of financial disclosure.

Despite the recommendations of the SOX and FRC of the UK as well as guidelines on audit committees released by major accounting companies such as PwC and KPMG on the composition of audit committees in terms of ensuring its independence from management, membership of some audit committees of listed companies in Ghana was found to include executive directors. However, the study has proven that independent non-executive directors are very effective in ensuring more financial disclosures. Therefore, the study provides evidence to support the call for audit committees to be composed mainly of independent non-executive directors.

Moreover, the study provided evidence that financial companies disclose more information on financial financials than nonfinancial financials due to the fact that banking and financial regulations guiding their operations emphasize the disclosure of financial financial. This calls for more stringent listing regulations that will compel financial companies to disclose more information on nonfinancial financials as well.

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Suggestions for Further Research

Based on the findings and limitations of the study, the following suggestions were made to guide future researchers who intend to conduct a study in this area. Future studies on financial disclosure in Ghana should use a large sample size made up of both listed and non-listed companies. This will help in not only generalising the findings , but comparing the disclosure practices of listed and non-listed companies in order to establish which category of companies disclose more financial information. The study was confined to listed companies in Ghana, thereby limiting the generalisation of the findings to other developing countries. Therefore, in order to extend the findings of the study to other developing countries, future studies should consider a wide sample of companies from more developing countries in order to appreciate the extent of financial disclosure and the quality of financial disclosure by companies in developing countries.

In examining the influence of audit committee characteristics on financial disclosure, the study relied on five characteristics: gender, size of audit committee, frequency of meetings, independence of members, and financial expertise of members. It is recommended that future studies should increase the number of audit committee characteristics by considering other characteristics, such as tenure of members, multiple directorships, and nationality of directors. The study adopted financial disclosure checklists of prior researchers in different geographical, political and cultural jurisdictions. However, considering the voluntary nature of financial disclosure, it is believed that disclosure checklists developed in other countries may be influenced by the country-specific disclosure requirements

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and regulations of such countries which may be different from the Ghanaian setting. Therefore, it is recommended that future financial disclosure studies in Ghana should consider using a disclosure checklist developed based on the Ghanaian context in other to reflect the nature and kinds of financial peculiar to Ghanaian companies.

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