

UNIVERSITY OF CAPE COAST

AUDIT COMMITTEE EXPERTISE AND QUALITY OF INTERNAL
AUDIT REPORT: THE CASE OF METROPOLITAN, MUNICIPAL AND
DISTRICT ASSEMBLIES IN THE CENTRAL REGION OF GHANA

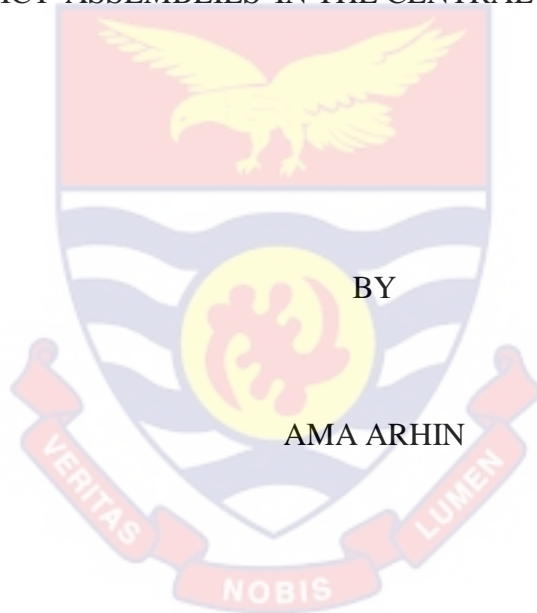


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2023

UNIVERSITY OF CAPE COAST

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AUDIT REPORT: THE CASE OF METROPOLITAN, MUNICIPAL AND
DISTRICT ASSEMBLIES IN THE CENTRAL REGION OF GHANA



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

NOVEMBER 2024

DECLARATION

Candidates Declaration

I hereby declare that this discussion is the product of my own original research and no section of it has been preceded to the University of Cape Coast or elsewhere.

Candidate's Signature.....

Date.....

Name: Ama Arhin

Supervisor's Declaration

I hereby declare that the preparation and presentation was supervised in accordance with the guidance's on supervision of dissertation laid down by the University of Cape Coast

Supervisor's Signature.....

Date.....

Name: Dr. James Tuffour

ABSTRACT

The study assessed audit committee expertise and quality of internal audit report nexus among Metropolitan Municipal and District Assemblies in the Central region of Ghana. Primary data was collected from 150 audit committee members. Explanatory research design was adopted. Following this, the study adopted a quantitative approach and employed questionnaire as its primary data collection instrument. Using PLS-SEM, the study revealed positive nexus between audit committee expertise and quality of internal audit report. The study further found that audit committee independence impact quality of internal audit report significantly and positively. Likewise, audit committee's role performance is seen as important promoter of quality of internal audit report. Therefore, it was recommended that MMDAs should prioritize training and development programs for their audit committee members to ensure they remain well-informed and effective in their roles. Moreover, the management of MMDAs are entreated to continuously emphasize the independence of the audit committee from management and any undue influence. MMDAs are encouraged to develop and communicate clear and comprehensive terms of reference for their audit committee, outlining its roles, responsibilities and objectives.

ACKNOWLEDGEMENTS

I would like to extend my heartfelt thanks to the many individuals who offered steadfast support during the course of completing this dissertation. Above all, I deeply appreciate the guidance, remarkable patience, and invaluable contributions of my Supervisor, Dr. James Tuffour. His mentorship has significantly influenced the trajectory of my research and has been invaluable in assisting me in addressing the various challenges encountered throughout this journey.

I, also, appreciate my colleagues and all the participants and volunteers who took part in this study.

DEDICATION

To my family.

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CHAPTER ONE

INTRODUCTION

The quality of internal audit reports is critical for ensuring effective governance, accountability, and transparency within public sector organizations (Kusumastuti & Maharani, 2021). High expertise in auditing is generally associated with more comprehensive and reliable internal audits, which can significantly enhance decision-making and risk management processes (Desai et al., 2022). Audit committee expertise (ACE), particularly in areas like financial management, regulatory compliance, and risk assessment, is therefore fundamental to the production of high-quality internal audit reports (QIAR) (Chambers & Odar, 2015).

In recent years, the role of audit committees in the public sector has gained prominence due to increasing concerns over fiscal management and accountability. Metropolitan, Municipal, and District Assemblies (MMDAs) in Ghana, particularly those in the Central Region, face unique challenges in maintaining robust internal controls and ensuring the quality of internal audit functions. These challenges often stem from limited financial resources, inadequate training, and a lack of expertise among audit committee members (Owusu et al., 2020).

This study seeks to explore the relationship between ACE and QIAR within the context of MMDAs in the Central Region of Ghana. By examining the nexus between the expertise of audit committees and the quality of internal audit reports, this research aims to provide insights into how enhancing ACE can contribute to improved governance and accountability in the public sector.

Background to the Study

The quality of internal audit reports (QIAR) has become increasingly critical for public sector institutions, including Metropolitan, Municipal, and District Assemblies (MMDAs) in Ghana. As these entities strive for greater transparency, accountability, and financial integrity, there is a growing emphasis on strengthening internal audit functions through the formation of audit committees with the requisite expertise (Agyei-Mensah & Yeboah, 2019; Bananuka et al., 2019). Audit committee expertise (ACE) is seen as a pivotal factor in enhancing the quality of internal audits, which are essential tools for effective governance and risk management (Alzeban, 2019).

The challenges faced by MMDAs in Ghana, particularly in the Central Region, include issues related to inadequate financial oversight, poor internal controls, and limited capacity for effective auditing (Agyemang, 2020). These challenges have often resulted in substandard financial reporting, undermining the overall performance and credibility of these local government bodies (Owusu et al., 2020). As a response, some MMDAs have sought to enhance their audit committees by including members with specialized skills in financial management, risk assessment, and regulatory compliance to improve internal audit quality (Glover-Akpey & Azembila, 2016).

Research indicates that ACE significantly influences an organization's ability to provide timely, accurate, and reliable internal audit reports (Agyei-Mensah, 2022). For example, a study by Alzeban (2019) found that a substantial majority of CEOs (93% of 766 surveyed) viewed ACE as crucial to their organization's audit quality. This finding is particularly relevant in the Ghanaian context, where internal audit functions at the MMDAs are often

hampered by inadequate training and expertise, resulting in financial misreporting and inefficiencies (Agyemang, 2020; Agyei-Mensah, 2022).

In the Central Region of Ghana, the importance of ACE is underscored by the unique socio-economic and administrative challenges facing the MMDAs. These assemblies are responsible for a wide range of local governance functions, from infrastructure development to service delivery, which requires sound financial management and accountability (Ministry of Local Government and Rural Development, 2021). Given these responsibilities, the effectiveness of internal audit reports is critical in safeguarding public funds and maintaining public trust. Therefore, understanding how the expertise of audit committees impacts the quality of internal audit reports in this region is vital for improving governance outcomes (Acquah, 2016; Ashraf et al., 2020).

Drawing on the resource-based view theory (Barney, 1991), this study posits that MMDAs with robust audit committees equipped with the necessary expertise are better positioned to produce high-quality internal audit reports. Such reports are more likely to fulfill their objectives by providing accurate insights and recommendations that strengthen the organization's governance, control processes, and risk management capabilities (Wahhab & Al-Shammari, 2021).

In summary, this study examines the relationship between audit committee expertise and the quality of internal audit reports within MMDAs in the Central Region of Ghana. By focusing on this specific context, the research aims to provide insights that can inform policy decisions and capacity-building initiatives to enhance public sector governance and financial

management at the local government level.

Statement of the Problem

In an ideal situation, public sector institutions, including Metropolitan, Municipal, and District Assemblies (MMDAs), would have audit committees composed of individuals with the requisite expertise in financial management, internal controls, and risk assessment. Such expertise is crucial for ensuring the production of high-quality internal audit reports (QIAR), which are essential for promoting transparency, accountability, and sound financial management within these organizations (Ajzen, 1991; Oji & Ofoegbu, 2017; Carrera et al., 2017). Research has demonstrated that audit committee expertise (ACE) can significantly enhance the quality of internal audit reports, thereby supporting effective governance and organizational performance (Mardessi, 2021).

However, the current situation in many MMDAs in Ghana, particularly in the Central Region, reveals a troubling gap between this ideal and reality. Numerous MMDAs are struggling to produce high-quality internal audit reports due to a lack of expertise among their audit committee members (Agyei-Mensah, 2022; Agyemang, 2020). This deficiency has created a critical vulnerability in the public sector, as poor internal audit quality has been linked to ineffective financial oversight, increased corruption, misallocation of resources, and reduced public trust in local government institutions (Owusu et al., 2020; Alzeban, 2019).

Compounding this issue is the inconsistency in empirical findings on the relationship between ACE and QIAR. While some studies (e.g., Agyemang, 2020; Salleh et al., 2017) suggest that ACE positively influences

QIAR, other research (e.g., Moses, 2019; Mardessi, 2021) presents mixed or inconclusive results. This ambiguity undermines efforts to establish clear guidelines for strengthening audit functions in MMDAs, leaving these organizations in a state of uncertainty and risking continued governance failures. Without decisive action to clarify and address these inconsistencies, MMDAs may continue to experience poor financial management, further deepening the socio-economic challenges they face (Agyei-Mensah et al., 2020; Ud Din et al., 2021).

The effects of this lack of clarity and expertise are not merely theoretical; they have real and potentially severe consequences. Weak internal audits enable financial mismanagement, unchecked corruption, and misappropriation of public funds, all of which can destabilize local governance structures, hinder development projects, and exacerbate socio-economic inequalities within the region (Ud Din et al., 2021; Agyei-Mensah, 2022). In a context where public resources are already scarce and development needs are urgent, such inefficiencies and losses could have dire implications for local communities, including reduced access to essential services, deteriorating infrastructure, and a decline in overall quality of life.

Moreover, gaps in existing literature further complicate the situation. While numerous studies have explored the ACE-QIAR relationship in developed countries (e.g., Ghafran & Yasmin, 2018; Salleh et al., 2017; Ryu et al., 2021), there is a critical lack of focused research on this relationship in developing countries, particularly in Ghanaian MMDAs. The existing studies in Ghana predominantly focus on the financial performance of listed companies (Agyemang, 2020; Karajeh & Ibrahim, 2017), neglecting the

unique governance dynamics and challenges of MMDAs. Furthermore, many studies overlook key contextual variables such as weak institutional leadership and limited awareness about the importance of ACE, which could significantly influence QIAR (Ahmed Bamahros et al., 2017; Mardessi, 2021).

If these gaps are not addressed, MMDAs in the Central Region of Ghana may continue to suffer from poor audit quality, leading to ongoing governance challenges, mismanagement of funds, and declining public confidence. There is an urgent need for more targeted research to understand how audit committee expertise affects the quality of internal audit reports in this context. This study aims to fill this gap by providing critical insights that could inform policies and practices to enhance governance, accountability, and financial integrity in Ghana's public sector.

Purpose of the Study

The main aim of the study was to assess ACE and QIAR nexus among MMDAs in the Central region of Ghana.

Research Objectives

Specifically, the study sought to:

1. investigate the impact of ACE on QIAR in MMDAs in the Central region of Ghana.
2. examine the impact of audit committee independence (hereafter, ACI) on QIAR in MMDAs in the Central region of Ghana.
3. assess the role of the audit committee in enhancing the quality of internal audit reports in MMDAs in the Central region of Ghana.

Research Hypotheses

H₁: The nexus between ACE and QIAR is positive.

H₂: The nexus between ACI and QIAR is positive.

H₃: The nexus between audit committee role performance (hereafter, ACRP) and QIAR is positive.

Significance of the Study

The study's outcome contributes to the comprehension of existing body of knowledge based regarding the nexus between ACE and quality internal audit report that can be referred to in further studies. Moreover, the outcome supports the management of the Metropolitan Municipal and District Assemblies to constitute audit committee with the right expertise in order to improve their internal audit report. In addition, the finding of this study enables the management of Metropolitan Municipal and District Assemblies to constitute audit committee that will be independent with their roles clearly defined to produce quality internal audit report.

Delimitation of the Study

This study is delimited to the audit committee members of all Metropolitan, Municipal, and District Assemblies (MMDAs) within the Central Region of Ghana. The focus on this specific region and its MMDAs was driven by their distinct challenges in producing high-quality financial and internal audit reports, as identified in previous research (Glover-Akpey & Azembila, 2016). The study specifically targets the expertise of audit committee members, including their knowledge in financial management, auditing, and regulatory compliance, as these are critical factors influencing the quality of internal audit reports.

Furthermore, the study does not extend to MMDAs outside the Central Region or other public sector institutions, which may experience different challenges or regulatory environments. By narrowing the scope to the Central Region, the study aims to provide a more focused and in-depth analysis of the relationship between audit committee expertise and the quality of internal audit reports within this specific context. This delimitation ensures that the findings are directly relevant to the local governance dynamics of the Central Region, while also providing a framework that could be adapted or expanded in future research across other regions.

Limitation of the Study

This study focused on MMDAs in the Central region of Ghana. As a result, it is challenging to apply the study's findings universally to other Metropolitan Municipal and District Assemblies. Additionally, some respondents expressed difficulty in comprehending the technical aspects of the research instrument, but the researcher took the necessary time to clarify these technicalities. Furthermore, due to the practical difficulties in obtaining a precise sampling frame for the entire population, the investigation did not rigorously adhere to the randomization principle. Nevertheless, considering the substantial volume of data gathered, it is reasonable to infer that the study's findings and recommendations could be valuable to the management of MMDAs in Central region of Ghana.

Organization of the Study

The study is made up five chapters. Chapter one addressed issues such as the background of the study, statement of the problem, objectives of the study, hypotheses, relevance of the study, organization of the study the study

scope and limitations of the study. Chapter Two reviewed related literature. Chapter Three reviewed the study methodologies that were utilized. Additionally, Chapter Four contained the presentation and discussion of the study results. Chapter Five summarized the study results, conclusions and recommendation

CHAPTER TWO

LITERATURE REVIEW

Introduction

The study aimed to investigate the linkage between ACE and QIAR among MMDAs in the Central region of Ghana. This chapter consist of examination of theories, concepts, and empirical studies related to the study.

Theoretical Review

Resource based view theory

The tent of the resource-based view (hereafter, RBV) theory is about institutions acquiring, utilizing and expansion of strategic resources to achieve competitive advantage (Penrose, 1959; Barney, 1991; Rugman & Verbeke, 2002). The theory advances on the expectation that, quality internal audit report requires strategic resource hence, the need for institutions to get those strategic resources with the expertise to attain that feat (Rugman & Verbeke, 2002). The theory urges institutions to use unique resources in the form of ACE to improve their internal audit report (Agyemang, 2020).

The RBV theory maintains that institutions with ACE are better positioned to improve their internal audit report (Agyei-Mensah, Agyemang & Ansong, 2020; Ryu, Chae & Song, 2021). This is because ACE helps review audit processes, improve financial statements through oversight and effective monitoring (Bin-Ghanem & Ariff, 2016) which will then improve their internal audit report (Agyei-Mensah, 2022).

According to this theory, when employees believe that their organization provide the strategic resources needed for their work, their performance improves which, in turn, enhances their quality internal audit

report. Barney's (1991) resource-based view theory also advanced that MMDAs with tangible resources in the form of ACE stands the chance produce quality internal audit report on time (Acquah, 2016; Ashraf, Michas& Russomanno, 2020). The resource-based view theory maintains that institutions such as MMDAs should be interested in producing quality internal audit report by constituting audit committee with the expertise which seems to yield favourable results for MMDAs (Penrose, 1959; Rugman & Verbeke, 2002). MMDAs are one of the main concerns for government because, their quality internal audit report is vital for its survival and timely provision of quality internal audit report. Hence, it is important for MMDAs to get individuals with the knowledge to oversee the provision of these internal audit reports.

Conceptual Review

Audit Committee Expertise (ACE)

As stated by Qasim (2018), there has been a lack of a universally accepted definition for the concept of ACE, despite its existence in business literature for several years. Numerous scholars have made attempts to provide definitions for this concept, but there is still no widely recognized definition in this regard. Agyemang (2020) contended that such ambiguity arises when institutions incorrectly conceptualize the concept of ACE. In light of this, the most pivotal definition for ACE is offered by Bin-Ghanem and Ariff (2016).

The scholars described ACE as individuals with the right ability and are given the responsibility to assess audit procedures, improve financial statements through supervision and surveillance roles on internal audit report processes. ACE is also recognized as a vital conduit for checking and balancing

internal audit report (Glover-Akpey & Azembila, 2016; Agyei- Mensah, 2018). Alzeban (2019) submitted that some CEOs perceive ACE as a crucial factor that contributes significantly to quality internal audit report of their organizations.

This implies that organizational success and provision of quality internal audit report is reliant on the extent to which they are able to constitute audit committee with expertise. ACE is an effective tool for improving internal audit report (Agyei-Mensah, Agyemang & Ansong, 2020). Kusnadi, Leong, Suwardy and Wang (2016), Eyenubo, Mohammed and Ali (2017) and Wahhab and Al- Shammari (2021) view ACE as one of the determinants of a successful business because it has a direct influence on their quality internal audit report.

Shankaraiah and Amiri (2017) also posited that a well constituted ACE have the propensity of improving the internal audit report of institutions. Hasan, Kassim and Hamid (2020) explained some important reasons why ACE influence firm quality internal audit report. Most importantly, institutions such as MMDAs that are committed to having ACE are more prone to making a solid accounting decision which may result into their quality internal audit report. Moreover, Hasan, Kassim and Hamid (2020) observed that such institution tends to be more responsive to their employer's demand (Hasan, Kassim & Hamid, 2020). It has been established in other studies that institutions including MMDAs that are keen on forming good audit committee with the needed knowledge/skills are likely to improve their internal audit report (Alzeban, 2019; Agyei-Mensah & Yeboah, 2019; Bananuka et al., 2019).

Quality Internal Audit Report

Chen, Li and Wang (2011) explained quality internal audit report as the tendency of organizations to produce audit report that are free from error and are provided on a timely basis. Kibiya et al. (2016) further argued that the extent to which an institution's financial health is measured explains their quality internal audit report. Baatwah, Al- Ebel and Amrah (2019a) and Raweh, Kamardin and Malik (2019) view quality internal audit report as one of key determinants of a successful business because every accounting decision is usually based on it.

Alzeban (2015) understands internal audit report improvement to be the fundamental target for institutions since the quality internal audit report is considered to be one of the important organizational documents that directly influence corporate performance. Oussii and Taktak (2018) advanced that the sustainability of institutions in our competitive environment demands that institutions pay attention to quality internal audit report. Al-Shaer, Salama and Toms (2017) view quality internal audit report as an essential goal that organizations must strive to attain by constituting committee with expertise.

It has also been suggested that one of the easiest ways of achieving quality internal audit report is by constituting audit committee with the expertise (Baatwah, Ahmad & Salleh, 2016; Alzeban, 2019; Agyei-Mensah & Yeboah, 2019; Bananuka et al., 2019). Karajeh and Ibrahim (2017) Endrawes, Feng and Shan (2020) assessed the influence of ACE on quality internal audit report and found that employees' perception about the ACE is an important determinant of their quality internal audit report.

Chen, Li and Wang (2011) mentioned that companies that are able to form solid audit committee with expertise will have advantage over rivals because, the benefits of improved audit committee with expertise results in significant internal audit report. Thus, it is important that companies to consider forming audit committee as an important dimension of their business practice.

Empirical Review

Audit Committee Expertise and Quality Internal Audit Report

Chen, Li, and Wang (2011) defined quality internal audit report as the tendency of organizations to produce audit reports that are free from error and provided on a timely basis. The study employed a quantitative research approach, using surveys or archival data to assess the quality of internal audit reports in various organizations. They analyzed the presence of errors and timeliness, utilizing regression analysis to test the relationship between audit committee expertise and audit quality.

Kibiya et al. (2016) argued that the extent to which an institution's financial health is measured explains their quality internal audit report. This study adopted a mixed-methods approach, combining financial data analysis with interviews or questionnaires to establish a correlation between an institution's financial health and internal audit report quality. The authors employed correlation and regression analysis to quantify this relationship.

Salleh, Baatwah, and Ahmad (2017), Baatwah, Al- Ebel, and Amrah (2019a), and Raweh, Kamardin, Malik, and Hashed (2021) view quality internal audit reports as part of the elements of a successful business, as every accounting decision is based on them. These studies employed quantitative methods by analyzing financial statements and internal audit reports. They

conducted content analysis of internal audit reports and used statistical methods such as regression analysis to evaluate the impact of audit committee expertise on audit report quality.

Alzeban (2015) sees improvement in the quality of internal audit reports as a fundamental target for organizations. The study used a case study approach and employed surveys to collect data from various organizations. Interviews and questionnaires were used to understand the organizational perspective on internal audit report quality. Statistical analysis supported the conclusion that internal audit report quality directly influences organizational performance.

Oussii and Taktak (2018) emphasized that organizations need to pay attention to internal audit report quality to survive in today's competitive environment. They adopted a mixed-methods approach, including surveys and case studies, to analyze data across different industries. They used factor analysis to measure the impact of internal audit report quality on organizational competitiveness.

Nikolova et al. (2022) view quality internal audit reports as an essential goal that institutions must strive to attain by constituting committees with expertise. This study employed quantitative analysis, using regression models to explore how audit committee expertise affects the quality of internal audit reports. Data was collected from financial statements and internal audit reports of various organizations.

The primary contention of RBV theory is that institutions should acquire, utilize, and expand strategic resources to achieve a competitive advantage (Penrose, 1959; Barney, 1991; Rugman & Verbeke, 2002). This

theory advances the idea that quality internal audit reports require strategic resources, such as audit committee expertise, to be produced effectively. Tanyi and Smith (2015) utilized a quantitative methodology by analyzing organizational financial records and audit reports, demonstrating how strategic resources with the necessary expertise contribute to higher quality audit reports.

It has been acknowledged that institutions employing audit committee expertise (ACE) are better positioned to enhance the quality of their internal audit reports (Baatwah, Salleh, & Stewart, 2019b). ACE enables institutions to achieve their long-term objective of conducting effective audit reviews, which lead to higher quality internal audit reports (Abernathy, Barnes, Stefaniak, & Weisbarth, 2017; Al-Ebel, Baatwah, & Al-Musali, 2020). These studies utilized quantitative research designs, relying on large-scale surveys and archival financial data, and applied regression models to investigate the role of audit committee expertise in improving audit report quality.

Akpey and Azembila (2016), Agyei-Mensah and Yeboah (2019), Agyemang (2020), Agyei-Mensah, Agyemang, and Ansong (2020), and Agyei-Mensah (2022) all focused on how ACE ensures that audit reports are free from error and delivered on time. These authors employed case study methods combined with survey data and applied regression and correlation analysis to explore the impact of ACE on internal audit report quality in the Ghanaian context.

Empirically, Lee (2022) found that constituting an audit committee with expertise could positively impact internal audit report quality. The study used a survey method to collect data from organizations regarding the

composition and expertise of audit committees and employed regression analysis to test the impact of audit committee expertise on audit quality.

Raweh et al. (2021) and Mardessi (2021) reported that the positive relationship between ACE and quality internal audit reports can also be created when such initiatives are beneficial to staff. Both studies employed quantitative methods, using structural equation modeling (SEM) and regression analysis to analyze the data collected from audit reports and financial statements.

Similarly, Oji and Ofoegbu (2017), Karajeh and Ibrahim (2017), and Endrawes, Feng, and Shan (2020) explored the influence of ACE on internal audit report quality and found that employee perceptions of an institution's audit committee expertise are an important determinant of internal audit report quality. These studies used mixed-methods approaches, combining surveys with content analysis, and applied factor analysis and regression techniques to test the influence of ACE on audit report quality.

Given the discussion above, the study hypothesizes that:

H₁: The nexus between ACE and QIAR is positive.

Audit Committee Independence and Quality Internal Audit Report

Audit Committee Independence (ACI) is considered one of the strategic components for ensuring quality internal audit reports. According to Kaawaase and Nkundabanyanga (2017), it is crucial for audit committees to function independently, free from interference by government or management, in order to produce high-quality internal audit reports. The study utilized a quantitative approach, employing surveys and interviews to gather data on how the independence of audit committees affects audit quality. Regression

analysis was then been used to test the relationship between ACI and internal audit report quality.

The theory of planned behavior (Ajzen, 1991) suggests that institutions, including MMDAs, which establish independent audit committees, are in a better position to improve the quality of their internal audit reports (Kaawaase, Assad, Kitindi, & Nkundabanyanga, 2016; Kaawaase, Bananuka, Kwizina, & Nabaweesi, 2020). These studies used a mixed-methods approach, combining quantitative surveys and qualitative case studies to explore the influence of ACI on audit report quality. They also regression analysis to test the hypothesis that independent committees lead to better internal audit report quality.

Mardessi (2021) supports the view that independent audit committees are better able to monitor internal audit processes fairly and objectively. The study used surveys to gather data from organizations and applied factor analysis to assess how the perception of independence influences attitudes towards the audit process.

Mansor, Che-Ahmad, Ahmad-Zaluki, and Osman (2013) demonstrated that ACI is advocated by institutions such as MMDAs as a tool for improving internal audit report quality. Their research utilized a case study approach with quantitative methods to analyze the role of audit committees in improving audit quality. Statistical techniques such as correlation analysis were used to identify the link between ACI and audit report quality.

Mukyala, Bananuka, Basuuta, Tumwebaze, and Bakalikwira (2017) highlighted that providing quality internal audit reports is part of the responsibility of an independent audit committee. Their study used surveys to

collect data from organizations and employed regression analysis to establish the impact of audit committee independence on internal audit report quality.

Given the competitive nature of the business environment, offering quality internal audit reports is considered essential for organizational performance (Kusnadi, Leong, Suwardy, & Wang, 2016; Eyenubo, Mohammed, & Ali, 2017). These studies adopted quantitative methods, utilizing surveys to collect data on the relationship between ACI and audit report quality. Regression models was then used to test this relationship in various institutional settings, including MMDAs.

Wahhab and Al-Shammari (2021) opined that ACI is linked to organizational actions, such as providing quality internal audit reports. Their study employed a quantitative research design, with data collected through questionnaires and analyzed using factor analysis to determine how ACI influences internal audit report quality.

Nalukenge et al. (2017) and Bananuka et al. (2019) asserted that the degree of audit committee independence can directly influence internal audit report quality. These studies likely utilized surveys and quantitative analysis methods, with the data subjected to regression analysis to examine the relationship between ACI and audit quality.

Roussy and Brivot (2016) argued that ACI has become a foundation for quality internal audit reports. Using a quantitative approach, this study applied content analysis to examine audit reports and used statistical methods like regression analysis to empirically test the impact of ACI on internal audit report quality.

Empirical evidence supports that institutions that guarantee ACI experience an enhancement in their internal audit report quality (Nalukenge, 2020). The study employed quantitative analysis, using data collected through surveys and applying regression analysis to measure the effect of ACI on audit quality.

Agyei-Mensah and Yeboah (2019) and Bananuka et al. (2019) also confirm that ACI acts as a valuable tool contributing significantly to organizational performance in terms of internal audit report quality. Their studies adopted case study methods with surveys, using statistical tools such as regression analysis to identify how independence in the audit committee prevents manipulation by managers.

Shankaraiah and Amiri (2017) and Johnston (2016) demonstrated a significant and positive relationship between ACI and the quality of internal audit reports. They used a quantitative methodology by collecting data through questionnaires and employing regression techniques to examine the influence of ACI on audit report quality.

Hutapea and Widyaningsih (2017) documented those institutions such as MMDAs, which successfully establish independent audit committees, benefit from improved internal audit report quality. Their study utilized quantitative methods, such as surveys, and employed regression analysis to explore the positive relationship between ACI and internal audit report quality. Given the above, the study hypothesizes that:

H₂: The nexus between ACI and QIAR is positive.

Audit Committee Role Performance and Quality Internal Audit Report

The audit committee is considered a key conduit for achieving quality internal audit reports through a systematic and well-organized approach (Salleh et al., 2017). This study employed a quantitative research design, using surveys and archival data to assess how the performance of the audit committee influences internal audit report quality. Regression analysis was then used to determine the relationship between audit committee role performance and the quality of audit reports.

Audit committees also act as watchdogs, providing unbiased assessments of an organization's financial performance. Agyei-Mensah (2022) advanced that audit committees offer material information to auditors and communicate issues that raise concern for redress. This study adopted a mixed-methods approach, using interviews with auditors to gain insights into the committee's role in improving internal controls, coupled with quantitative analysis through surveys to assess audit committee performance. Correlation analysis was used to quantify the impact of audit committee performance on internal audit quality.

Agyei-Mensah, Agyemang, and Ansong (2020) argued that audit committees create a trusting system where employees work with respect. This study used a qualitative case study method, collecting data through interviews and content analysis to explore how audit committees influence the workplace environment. Thematic analysis was applied to determine how this relationship enhances internal audit report quality.

Ryu, Chae, and Song (2021) saw the audit committee as a standard for exceptional performance for many organizations, motivating them to

recognize the benefits of having audit committees. They employed a quantitative approach, using survey data and applying regression analysis to assess the performance benefits derived from active audit committees. This study further employed content analysis to measure improvements in internal audit processes linked to audit committee performance.

The study establishes that audit committees enhance positive results among employees and encourage improvements in a company's audit practices and processes (Ghafran & Yasmin, 2018). This study used quantitative research methods by surveying employees and audit committee members, applying regression analysis to test the impact of audit committee performance on audit quality improvements.

Freeman (1984) emphasized that corporations interact with stakeholders, such as employees, who are vital to an organization's operations. Greenwood (2007) reiterated that employees are essential stakeholders because they have the power to influence the actions of organizations. Based on these assertions, Pamungkas, Ibtida, and Avrian (2018) and Rahayu, Yudi, and Rahayu (2020) argued that the quality of internal audit reports is largely traceable to the role played by the audit committee. These studies adopted qualitative methods, using content analysis to examine audit reports and interviews to understand stakeholder perceptions of audit committee performance. Thematic analysis was employed to interpret the data and link it to audit report quality.

Basri and Nabiha (2014) and Wiwoho (2018) stressed that excellent audit committees put strategies in place to enhance their internal audit reports. Both studies used a case study approach, collecting qualitative data through

interviews and quantitative data from organizational records. Regression and correlation analysis were employed to test how the strategies implemented by audit committees directly influence internal audit report quality.

Kaawaase and Nkundabanyanga (2018) conducted research on the relationship between audit committee role performance and quality internal audit reports, opining that institutions with well-performing audit committees excel in formulating and implementing governance policies, which, in turn, improve internal audit reports. This study adopted a mixed-methods approach, using surveys to assess governance policies and regression analysis to quantify the relationship between these policies and audit report quality.

Mardessi (2021) suggested that the monitoring function of the audit committee can significantly improve employee perceptions, ultimately enhancing internal audit report quality. This study employed survey methods and used factor analysis to measure how audit committee monitoring influences employee attitudes and, consequently, internal audit report outcomes.

Gerayli, Pitenoei, and Abdollahi (2021), along with Agyemang (2020) and Salleh et al. (2017), argued that the roles played by audit committees significantly and positively influence institutions, including MMDAs, in achieving higher-quality internal audit reports. These studies used quantitative approaches, employing regression models and content analysis to analyze audit report data and establish the positive relationship between audit committee role performance and audit report quality.

Given the discussion, this study hypothesizes that:

H₃: The nexus between audit committee role performance and QIAR is positive.

Conceptual Framework

The framework connects ACE, ACI, audit committee role performance to QIAR.

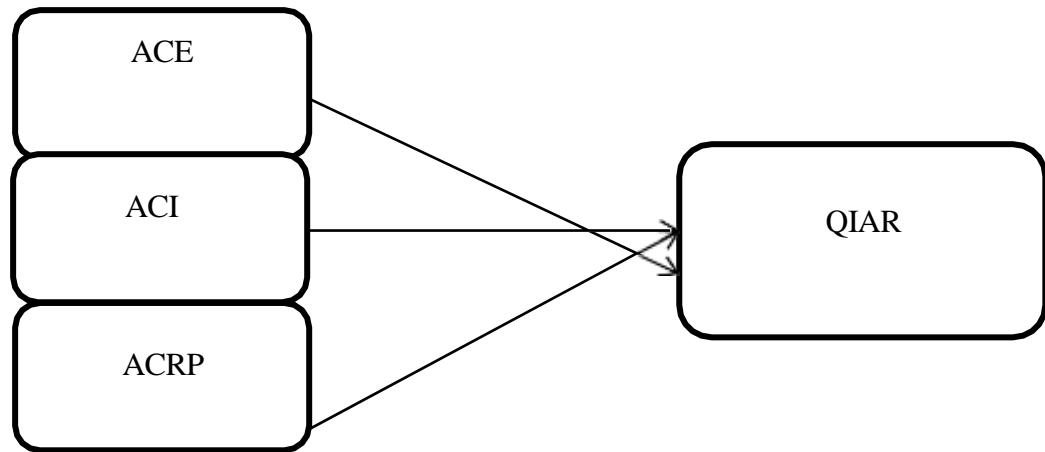


Figure 1: Conceptual Framework Source: Author's Construct (2023).

Source: Author's construct based on Resource Based View theory (Penrose, 1959)

Figure 1 visually depict the relationship between the three independent variables—Audit Committee Expertise (ACE), Audit Committee Independence (ACI), and Audit Committee Role Performance (ACRP)—and the dependent variable, Quality of Internal Audit Reports (QIAR).

Each objective of the study seeks to explore the impact of one or more of these independent variables on the quality of internal audit reports within MMDAs. It highlights how the audit committee's expertise, independence, and role performance collectively and individually contribute to enhancing the quality of internal audit reports in Metropolitan, Municipal, and District Assemblies (MMDAs) in the Central Region of Ghana.

Chapter Summary

This chapter provided an extensive review of the Resource-Based View (RBV) theory, outlining its relevance to audit committee functions and their impact on the quality of internal audit reports. A detailed empirical review of previous scholarly works was conducted, focusing on key variables such as Audit Committee Expertise (ACE), Audit Committee Independence (ACI), and Audit Committee Role Performance (ACRP), and their relationships with the Quality of Internal Audit Reports (QIAR). The chapter synthesized findings from various studies, highlighting both consistent conclusions and contrasting perspectives on how these audit committee characteristics influence audit outcomes. Despite the broad literature available, notable gaps were identified, particularly regarding the role of audit committees within Metropolitan, Municipal, and District Assemblies (MMDAs) in the Central Region of Ghana. Specifically, limited research has explored how these specific factors interact to affect audit quality in public sector institutions, thus justifying the need for this study. The chapter concluded with the development of a conceptual framework to guide the investigation into these relationships in the context of MMDA

CHAPTER THREE

RESEARCH METHODS

Introduction

The study examined ACE and QIAR nexus among MMDAs in the Central region of Ghana. This chapter outlined the techniques and tools used to achieve the research aims. It provides important information on the research methods such as the research design, research approach, sampling techniques, sample size, analytic method, research instruments and validity and reliability.

Research Approach

Research approach involves quantitative, qualitative and mixed methods (Neuman, 2014). In this regards, Bloomfield and Fisher (2019) and Lewis (2015) reasoned that using a quantitative approach help researchers to critically evaluate the association between study variables using statistical test of significance. Bengtsson (2016) argued that employing qualitative research approach on the other hand helps researchers to explain some aspects of social happenings through observation. This study utilized quantitative research approach. This is because the approach is suitable for studies of this kind that intend to use numerical data (Lewis, 2015; Creswell 2014). It also enables researchers to achieve broader knowledge and understanding of a study (Bloomfield & Fisher, 2019).

Research Design

Research design refers to the framework that guides how data is collected, measured, analyzed, and presented (Sekaran & Bougie, 2016; Sileyew, 2019). According to Sekaran and Bougie (2016), research designs

can be exploratory, explanatory, or descriptive. In this study, explanatory research design was chosen as it aligns with the research objective of exploring the relationships between audit committee expertise and the quality of internal audit reports. Explanatory design is particularly suitable for uncovering and reporting associations between different variables (Yin, 2003; Barifaijo, Basheka & Oonyu, 2010; Sekaran & Bougie, 2016). This approach provides a comprehensive analysis of the research objectives, allowing for a deep investigation into the dynamics at play (Saunders & Lewis, 2016; Cantwell, 2020). The choice of explanatory design is further justified by its applicability in identifying causal relationships and patterns that align with the study's purpose.

Study Area

The accessible respondents for this study were members of the audit committee in MMDAs in the Central Region. The MMDAs in the Central Region, like others across Ghana, are responsible for local governance, public service delivery and the implementation of government policies at the grassroots level. They play a crucial role in the development and administration of their respective areas, aiming to improve the lives of the residents and promote sustainable growth. The Central Region with its historical sites, cultural diversity and economic activities, offers unique opportunities and challenges for these assemblies as they work towards local development and progress. Based on this, the region was chosen as the study area.

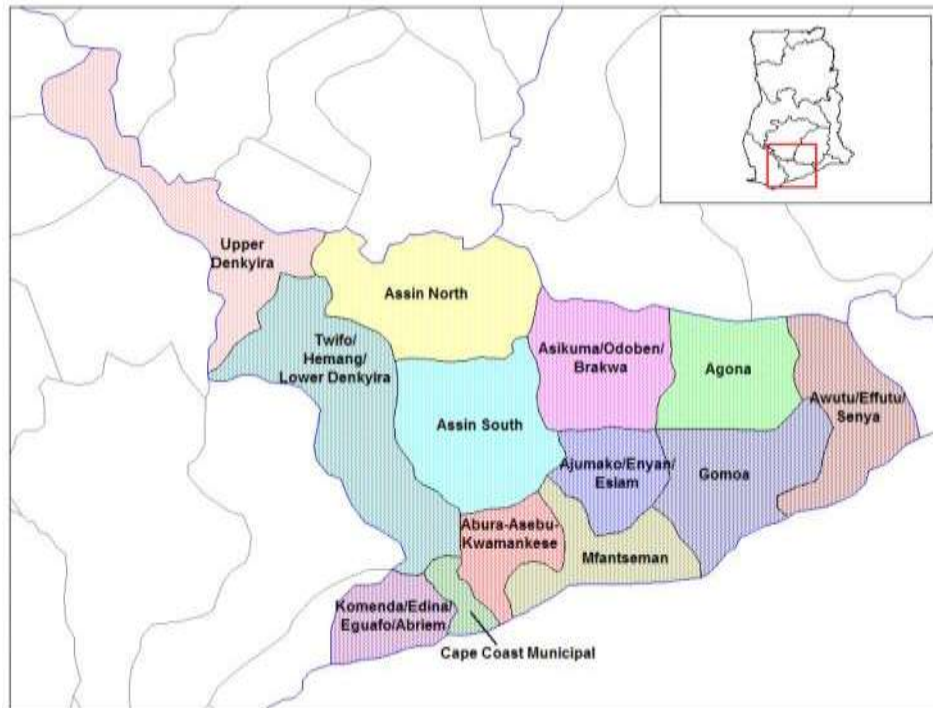


Figure 2: Map of Central Region, Ghana (2020)

Source: Geographic Information System (GIS) and Cartographic Unit of the Department of Geography and Regional Planning, University of Cape Coast (UCC), Cape Coast.

Moreover, the choice of all the MMDAs in the Central region was driven by the development of MMDAs which are also faced with the challenge of producing quality internal audit report (Glover-Akpey & Azembila, 2016). Central Region was chosen as the study area based on two major reasons. In addition, according to Schensul, Schensul, and LeCompte (1999), a researcher should be trusted by the population under study and have a personal relationship built (in other words, have a rapport built), be comfortable with the people in the field and, as well, know the activities of the study population, their interests, cultural dynamics (local customs and norms), and among others. Since the researcher meets these, the region was chosen.

Population

Population refers to the total collection of elements or individuals that meet specific criteria for a study (Graneheim & Lundman, 2004; Banerjee & Chaudhury, 2010). In this research, the population consists of 150 audit committee members across the 22 Metropolitan, Municipal, and District Assemblies (MMDAs) in the Central Region of Ghana (MMDAs database, 2022). Audit committee members are the primary stakeholders involved in ensuring effective internal audits, making them the most relevant group for this study.

Sampling Procedures

A sample, as defined by Sekaran and Bougie (2016), is a subset of the population selected for closer examination. Using a sample allows for more efficient research compared to surveying the entire population (Saunders et al., 2016). Following Krejcie and Morgan's (1970) table, a sample size of 108 audit committee members was determined to ensure a 5% margin of error. This sample size was derived from the 150 audit committee members across the 22 MMDAs in the Central Region.

The study employed simple random sampling, which ensures that each member of the population has an equal chance of being selected. This technique was chosen for its effectiveness in providing a representative sample, particularly in populations where individuals share similar characteristics (Sekaran & Bougie, 2016). The method also increases efficiency in data collection, which is crucial in contexts where responses to surveys and questionnaires can be challenging, such as in Ghana (Gyensare et al., 2016). Simple random sampling reduces bias and ensures that the sample is reflective of the broader population.

Data Collection Instruments

Questionnaire served as the primary instrument for data collection for the study. This choice was made due to several advantages, such as saving respondents' time and allowing them to complete it without the physical presence of the researcher (Chang et al., 2020). Additionally, many respondents find questionnaires conducive for providing answers without feeling any apprehension. The questionnaire was structured into five distinct sections. The purpose of Section A was collecting demographic data from the participants, while Section B focused on collecting information related to ACE. Section C was dedicated to capturing pertinent details regarding ACI. Further, Section D was collected data on audit committee role performance and finally, Section E was dedicated to obtaining information pertaining to the QIARs.

Population and Sampling Table

Table 1: The audit committee members from each MMDA

MMDAs	Population (Audit Committee Members)	Sample Size (Random Selection)
MMDA 1	8	6
MMDA 2	7	5
MMDA 3	9	7
MMDA 22	10	7
Total	150	108

Source: Ghana Statistical Service (2023)

Source of Data

Primary data was used. This choice was made because it allows researchers to gather data that is dependable, accurate and up-to-date for studies of this kind, as indicated by Easterby-Smith et al. (2008) and Saunders & Lewis (2012).

Measurement of Variables

Following Agyei-Mensah et al. (2020), ACE was measured on a five-item scale. Based on the position of Kaawaase and Nkundabanyanga (2017), ACI was also measured with five item scale. Moreover, audit committee role performance was measured by following Mardessi (2021) measurement scale. Similarly, quality of internal audit was measured by using Chen et al.'s (2011) measurement items. All items were measured on a scale of 1-5.

Reliability and Validity of the Instrument

Reliability is defined as consistently obtaining identical results when measurements are repeated multiple times (Myer, Karim, Joubert & Ehrlich, 2007). The instruments used were adapted from established and standardized tools to reduce the likelihood of random measurement errors. Liu, Kuang, Yin, and Hu (2017) emphasize that the function of construct or variable reliability is to mitigate inaccuracies and distortions within a study. Consequently, the study's constructs' internal consistency was validated by computing Cronbach's Alpha coefficient for the study variables. It has been argued that an item is considered reliable when its Cronbach's Alpha coefficient is 0.70 or higher (Henseler, Ringle & Sarstedt, 2015).

The validity of an instrument according to Naik, Jandavath and Byram (2016) determines how a research tool assesses the specific variables or constructs that it is intended to measure. Validity refers to the precision with which a phenomenon is portrayed (Bagozzi & Yi, 2012; Chin, 1998). Common sources of invalidity are selection, information and confounding bias (Myer et al., 2007). To minimize information bias, the researcher modified survey instruments in line with a study design possessing high levels of validity.

Further, based on the study aims, validity was checked by finding the Average Variance Extracted (AVE). To determine discriminant validity, the study used AVE (Fornell & Larcker, 1981).

Data Collection Procedure

Ethical clearance was sought by the researcher by consulting the District Chief Executives of all the twenty-two MMDAs in the Central region. Obtaining approval from the District Chief Executives was essential to ensure that respondents could ethically and comfortably fill the research instrument. The administration of the questionnaire was conducted by the researcher, and respondents completed it before returning it to the researcher.

Ethical Considerations

Rubin and Babie (2016) emphasize the significance of individuals involved in research being well-informed about ethical considerations. In line with this principle, the researcher accurately ensured that participants were fully briefed on the study's objectives. As well, the researcher conveyed to respondents that their participation was entirely voluntary. To safeguard their privacy, participants were kindly requested not to disclose personal details such as their name, phone number, email address, or any information that could potentially identify them.

Data Processing and Analysis

The data collected from the study was processed and analyzed using Partial Least Squares Structural Equation Modeling (PLS-SEM), which is a robust technique for analyzing complex relationships between constructs. The PLS-SEM approach was chosen due to its ability to handle small sample sizes and complex models with multiple variables (Hair et al., 2016). Specifically,

the study employed SmartPLS software to assess the structural relationships between Audit Committee Expertise (ACE), Audit Committee Independence (ACI), Audit Committee Role Performance (ACRP), and the Quality of Internal Audit Reports (QIAR).

The data analysis proceeded in several steps:

1. **Preliminary Data Screening:** The initial data was screened to ensure there were no missing values or outliers. Basic descriptive statistics were run to provide an overview of the demographic characteristics of respondents.
2. **Assessment of Common Method Bias:** To check for the possibility of common method bias, Harman's single factor test was performed. The results indicated that no single factor accounted for more than 50% of the variance, confirming that common method bias was not a significant concern in this study.
3. **Model Fit Testing:** The study employed the Standardized Root Mean Square Residual (SRMR) to assess the model fit. As indicated in the results, the SRMR value was 0.058, which is below the 0.08 threshold suggested by Hu and Bentler (1999), indicating a well-fitting model. Other model fit indices such as Chi-Square and d_ULS further affirmed that the model was appropriate for hypothesis testing.
4. **Reliability and Validity Testing:** The reliability of the constructs was confirmed through Composite Reliability (CR) and Cronbach's Alpha. The CR values ranged from 0.856 to 0.950, and Cronbach's Alpha values ranged from 0.836 to 0.923, both of which exceeded the minimum recommended thresholds of 0.7. Convergent validity was

also assessed using the Average Variance Extracted (AVE), with values exceeding 0.5 for all constructs, confirming that the measurement model had acceptable validity (Chin, 1998).

5. **Hypothesis Testing:** The structural model was evaluated by examining the path coefficients and their corresponding t-statistics and p-values. The R^2 value for the dependent variable (QIAR) was 0.819, suggesting that ACE, ACI, and ACRP together explained 81.9% of the variance in QIAR. The study also reported f^2 and Q^2 values to assess the effect sizes and predictive relevance of the model, both of which demonstrated the strong predictive power of the constructs.
6. **Multicollinearity Check:** The study assessed collinearity issues by analyzing the Variance Inflation Factor (VIF), with all VIF values falling below the recommended threshold of 3.3 (Kock, 2015), indicating no significant multicollinearity between the variables.

Through these analytical steps, the study was able to thoroughly examine the relationships between the audit committee characteristics and the quality of internal audit reports in MMDAs.

Chapter Summary

This chapter outlined the methodological framework for the study. It began by discussing the research design, emphasizing the selection of explanatory design to investigate the relationships among key variables. The population and sampling technique were described, with detailed justification for the sample size and selection method. The chapter also explained the data collection instruments, specifically the use of a structured questionnaire, and justified this choice in line with the research objectives.

Furthermore, the data processing and analysis section elaborated on the coding, cleaning, and analysis of the collected data using PLS-SEM, explaining its suitability for hypothesis testing. Ethical considerations were also highlighted, ensuring that participants were informed and that their privacy was safeguarded throughout the process. Lastly, the chapter provided a summary of the key methodologies employed in the study, setting the foundation for the subsequent analysis.

CHAPTER FOUR

RESULTS AND DISCUSSION

Introduction

The study analyzed ACE and QIAR nexus among MMDAs in the Central region of Ghana. This chapter presents on the test results of the primary data collected. The chapter also presents on the results concerning the connection between the variables under study. The findings are presented with discussions.

Demographic Characteristics of Respondents

This section presents on the demographic characteristics such as gender, age, educational qualification, income per month and years of work as audit committee member from 108 staff from 22 MMDAs in the Central region. As presented in Table 1, 64.8% of respondents were males while 35.2% were females, indicating that the males were more than the females in this study. The demographic result on the age group of respondents also showed that the ages between 21-31 years were 13.9%, 32-41 years constituted 69.4% of the respondents, 42– 51 years were 14.8% and 52 years above were only 1.9%.

Moreover, the items on respondents' educational qualification showed that, majority of the respondents hold Bachelor's Degree (77.8%) and while 22.2% of the respondents hold Master's Degree. Correspondingly, the demographic items measuring the number of year's respondents have worked as audit committee member documented that, 9.3% represent 1 – 5 years, 5 – 10 years represent 76.9% and 10 – 15 years indicate 13.8% (See Table 1).

Table 2: Demographic Characteristics of Respondents

Variable	Frequency	Percentage
Gender		
Male	70	64.8
Female	38	35.2
Age (years)		
21 – 31	15	13.9
32 – 41	75	69.4
42 – 51	16	14.8
Above 52	2	1.9
Educational Level		
Bachelor's Degree	84	77.8
Master's Degree	24	22.2
Income Per Month		
2,001-3,000	45	41.7
3,001-4,000	60	55.5
4,001-5,000	3	2.8
Years of Work		
1– 5 years	10	9.3
5– 10 years	83	76.9
10– 15 years	15	13.8

Source: Field Survey (2023)

Common Method Bias

The number of participants in this study, thus, 108 was ten times more than exogenous constructs (ACE, ACI and audit committee's role performance). Chin (1998) claim that research with primary data of this nature should not face challenges with indicator loadings and path coefficient. Consequently, Harman's one-factor test was employed in the study and the factor for 23.421 which is lower than Podsakoff et al.'s (2003) 50%

proposed threshold was obtained. Besides, the full collinearity test from the PLS-SEM findings of the Variance Inflation Factor (VIFs) was also used to affirm the presence of common method bias. From Table 5, it can be affirmed that the VIFs are less than Kock's (2015) proposed 3.3 thresholds.

Table 3: Model Fit

	Saturated Model	Estimated Model
SRMR	0.058	0.068
d_ULS	1.752	5.706
d_G	0.507	0.573
Chi-Square	3,030.234	3,669.323
NFI	0.773	0.736
rms Theta	0.107	

Source: Field Survey (2023)

Based on Lohmöller's (1989) position on rms Theta values, rms Theta value in Partial Least Square (PLS) measurement models should be lower than 0.12 to be confirmed as a well-fitting model. Nevertheless, a figure above the threshold value of 0.12 in measurement model is not fit for further analysis (Lohmöller, 1989). Relying on Lohmöller's (1989) position on rms Theta values, the rms Theta value for the model is 0.107 and can be confirmed as fit for further analysis. In addition, a SRMR value of 0 in in Partial Least Square (PLS) measurement model means model fit. Yet, a measurement model can generate a SRMR value of 0.064 (Henseler et al., 2014). Moreover, Hu and Bentler (1999) are of the view that a structural model is only fit when a SRMR value is less than 0.08. Given the position of Hu and Bentle (1999) on SRMR threshold value, the SRMR value of 0.058 has been recorded in the model and it is considered as fit (see Table 2).

Checking for Reliability and Validity of the Model

Henseler, Ringle, and Sarstedt (2015) have proposed that in PLS-SEM,

factor loadings can be considered reliable when their outer loadings are 0.7 or higher. From Table 3, it was found that majority of the outer loadings exceeded the 0.7 threshold. Nevertheless, certain items with loadings below 0.7 were retained within the model. This decision was underpinned by the fact that, majority of the constructs exhibited an average variance extracted exceeding the minimum threshold of 0.5, substantiated at a significance level of $p < 0.05$ (Henseler et al., 2015) (See Table 3). Regarding construct reliability, confirmation was sought through the use of composite reliability for each construct. The composite reliability values range from 0.856 to 0.950. These outcomes clearly demonstrate the attainment of construct reliability (Hair et al., 2014).

Again, the convergent validity of each construct was established by assessing the average variance extracted values. Chin (1998) and Hair et al. (2014) recommended that average variance extracted values should equal or exceed 0.5. As presented in Table 3, the model in question achieved commendable AVE values, ranging from 0.563 to 0.730, thus, verifying the convergent validity of every construct of the study. The Cronbach's alpha coefficients for the constructs fall between 0.836 and 0.923. In line with Bryman and Burgess (2011) Cronbach's alpha threshold, an $\text{Alpha} \geq 0.7$ signifies satisfactory construct reliability. Accordingly, all constructs met the requisite Cronbach's alpha threshold.

Table 4: Summary of Measurement of Scale

Latent Variable	Indicators	Mean	SD	Loadings	CR	AVE	ronbach Alpha
<i>Audit Committee Expertise</i>					0.913	0.731	0.923
	ACE1	5.055	1.520	0.821			
	ACE2	5.417	1.375	0.848			
	ACE3	5.444	1.308	0.834			
	ACE4	5.685	1.191	0.818			
	ACE5	5.546	1.272	0.777			
<i>Audit Committee Independence</i>					0.856	0.701	0.836
	ACI1	5.657	1.148	0.833			
	ACI2	5.472	1.35	0.916			
	ACI3	5.806	1.15	0.879			
	ACI4	5.907	1.159	0.840			
	ACI5	5.537	1.213	0.844			
<i>Audit committee Role Performance</i>					0.918	0.713	0.920
	ACRP1	5.417	1.263	0.800			
	ACRP2	5.306	1.294	0.582			
	ACRP3	5.102	1.790	0.852			
	ACRP4	5.407	1.453	0.844			
	ACRP5	5.269	1.351	0.858			
<i>Quality Internal Audit Report</i>					0.950	0.563	0.845
	QIAR1	5.324	1.387	0.842			
	QIAR2	5.241	1.800	0.939			
	QIAR3	5.500	1.391	0.926			
	QIAR4	5.611	1.400	0.917			
	QIAR5	5.704	1.314	0.912			

Source: Field Survey (2023)

According to Hair et al. (2016), it is crucial for researchers to assess the discriminant validity of a model in PLS-SEM. Fornell and Larcker (1981) along with Hair et al. (2016) have revealed that a structural model attains acceptable discriminant validity when the AVE values for each construct exceed the squared correlation value between the constructs. Drawing

from the perspective of Fornell and Larcker (1981) and Hair et al. (2016) concerning discriminant validity, all constructs fulfilled the criterion for discriminant validity. This verification solidifies the discriminant validity of the model (see Table 5).

Table 5: Fornell–Larcker criterion for Determining Discriminant Validity

	QIAR	ACE	ACI	ACRP
QIAR	0.668			
ACE	0.562	0.725		
ACI	0.560	0.568	0.747	
ACRP	0.568	0.619	0.743	0.749

Source: Field Survey (2023)

Note: ACE (ACE), ACI (ACI), Audit committee Role Performance (ACRP), Quality Internal Audit Report (QIAR)

Testing Hypotheses

This section presents results on tested hypotheses in the study. Thus, the effect of ACE on QIAR; ACI on QIAR and audit committee's role on performance of QIAR.

Table 6: Hypotheses Results

IV	DV	Path coeff.	S. E	t-Stats	P- Valu es	R ²	f ²	Q ²	VIF
ACE	QIAR	0.263	0.023	2.224	0.000	0.819	0.008	0.335	1.123
ACI	QIAR	0.185	0.021	2.707	0.000	0.819	0.009	0.335	1.532
ACRP	QIAR	0.524	0.023	22.323	0.000	0.819	0.312	0.335	1.000

Source: Field Survey (2023)

Note: Independent Variable (IV), Dependent Variable (IV), ACE (ACE), ACI (ACI), Audit committee Role Performance (ACRP), Quality Internal Audit

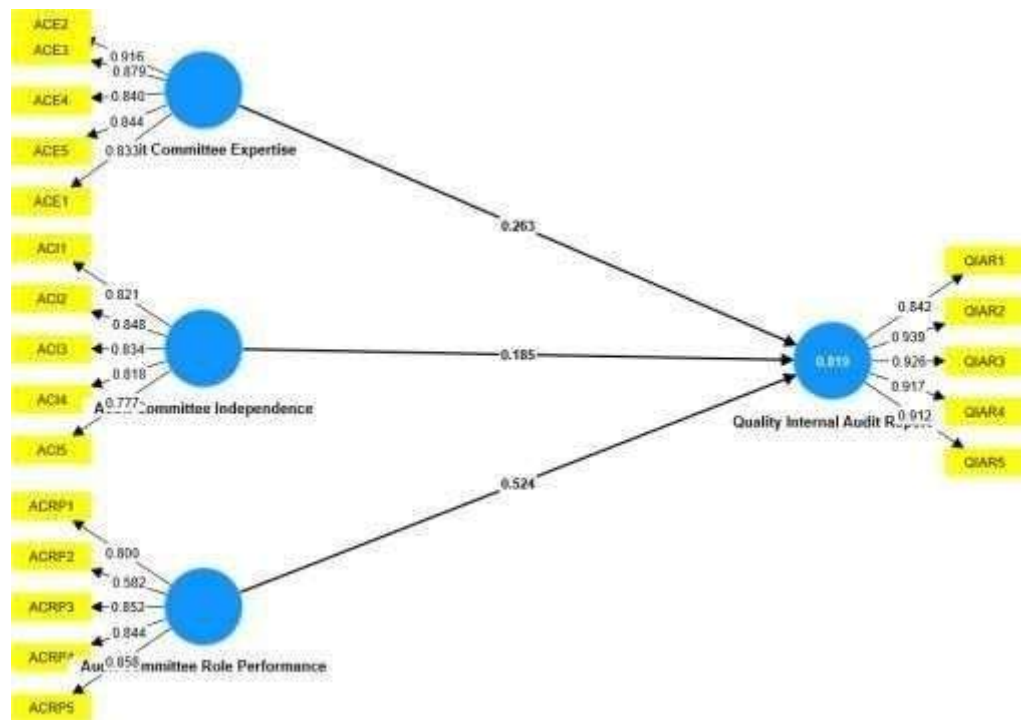


Figure 3: Path Modeling and Factor Loading Results Source: Field Survey (2023)

Source: Field Survey (2023)

Fritzsche and Oz (2007) reasoned that testing study hypotheses can start once a correct measurement has been attained. The primary data sourced from respondents was analyzed using PLS-SEM technique. Table 5 presents the R^2 value in the structural model. Moreover, the model represented by the study hypotheses specifies that ACE, ACI and audit committee's role performance described about 82% of variation in QIAR.

The R^2 value of 82% was adequate to help interpret the path coefficient results in the study. Götz et al. (2010) argued that a construct is said to have a predictive relevance if its Q^2 figure is higher than zero. For that reason, a $Q^2 = 0.335$ denoted that ACE, ACI and audit committee's role performance have a large predictive relevance for QIAR. Testing the study hypotheses was done by connecting the path coefficient and its related p-value from the data analysis. As clearly divulged in Table 5 and Figure 2, all the hypothesized direct

relationships were supported by the structural model data.

H₁: The nexus between ACE and QIAR is positive.

It was established from Table 5 that the path coefficient and its p-value ($\beta = 0.263$, $p = 0.000$) specify that the path coefficient from ACE to QIAR is significant and positive. This therefore, confirms the hypothesis that ACE significantly and positively impact QIAR. The finding suggests that having a knowledgeable and skilled audit committee positively influence the QIAR (Al-Ebel, Baatwah & Al-Musali, 2020). In the same domain, a positive nexus between ACE and internal report quality implies that well-informed committees are better equipped to make informed decisions based on the insights provided by internal auditors (Abernathy et al., 2017).

As a result, MMDAs with such committees are likely to experience improved governance effectiveness, which is critical for ensuring transparency and accountability in financial reporting and internal control systems (Baatwah, Salleh & Stewart, 2019b). High-QIARs are a valuable source of information for the board of directors and senior management of organizations (Akpey & Azembila, 2016). The finding connects favourably with the work of Agyemang (2020), Agyei-Mensah et al. (2020) and Agyei-Mensah (2022) that audit committee with the right expertise act as an effective tool that ensure that QIAR provided.

Moreover, the finding lend support to Lee's (2022) research result that composing audit committee with the precise expertise could bring about a positive influence on QIAR. Raweh et al. (2021), Mardessi (2021), Oji and Ofoegbu (2017), Karajeh and Ibrahim (2017) and Endrawes et al. (2020) reported that the positive link between ACE and QIAR.

H₂: The nexus between ACI and QIAR is positive

Additionally, the finding ($\beta = 0.185$, $p = 0.000$) means that ACI impact QIAR significantly and positively. The positive relationship suggests that MMDAs with independent audit committees are better positioned to provide credible and reliable internal audit reports (Mansor et al., 2013). This is because an independent audit committee is less likely to be influenced by management's biases or conflicts of interest (Mansor et al., 2013). In the same way, the significant and positive nexus between ACI and the QIAR underscores the critical role of an independent audit committee in ensuring the integrity, transparency and effectiveness of institutions such as Metropolitan Municipal and District Assemblies governance and financial reporting processes (Mukyala et al., 2017).

This can result in more objective and impartial assessments of internal audit reports which are crucial for maintaining the integrity of financial reporting and internal control systems (Kusnadi, Leong, Suwardy & Wang, 2016). This credibility can enhance the trust of stakeholders, such as investors, regulators and the public in the Metropolitan Municipal and District Assemblies financial reporting and governance processes (Eyenubo, Mohammed & Ali, 2017). The result emphasizes that independence is not only a regulatory requirement but, also a valuable driver of organizational credibility and success (Wahhab & Al-Shammari, 2021).

This study result resonates with the empirical opinions of Nalukenge et al. (2017), Roussy and Brivot (2016) and Bananuka et al. (2019) that the extent to which audit committees are made independent directly influence QIAR. Likewise, it has been confirmed empirically that institutions that

guarantee ACI could enhance their internal audit report positively and significantly (Nalukenge, 2020). In addition, some scholars (see Agyei- Mensah & Yeboah, 2019; Bananuka et al., 2019) stipulate that ACI contributes effectively to how organizations perform in their QIAR. This assertion also goes to confirm the finding of the study.

Shankaraiah and Amiri (2017) and Johnston (2016) proved that ACI has a significant and positive nexus with QIAR. According to Hutapea and Widyaningsih (2017), institutions including Metropolitan Municipal and District Assemblies that have successfully constituted an independent audit committee have benefited immensely with QIAR. The scholars documented a positive link between ACI and quality internal audit report.

H₃: The nexus between audit committee role performance and QIAR is positive

Again, it is reported that ($\beta = 0.265$, $p = 0.000$) clarify that the nexus between audit committee role performance and QIAR is positive. The positive association means that audit committees actively performing their roles contribute to more effective oversight of the internal audit function (Pamungkas, Ibtida & Avrian, 2018). This can lead to improved financial reporting accuracy, risk management and internal controls (Rahayu, Yudi & Rahayu, 2020). Also, high-quality internal audit reports are essential for accurate financial reporting (Basri & Nabiha, 2014).

It has been advanced that a well-performing audit committee can help ensure that these reports are comprehensive and trustworthy, which, in turn, enhances the accuracy and reliability of financial statements (Wiwoho 2018). The finding is in line with Kaawaase and Nkundabanyanga's (2018) research

result that institutions with good audit committee excel at formulating and implementing governance policies which improve their QIAR. According to Mardessi (2021), the monitoring function of audit committee can certainly boost up the positive perceptions of employees which may later improve QIAR (Gerayli, Pitenoei & Abdollahi, 2021). Agyemang (2020) and Salleh et al. (2017) submitted that the roles played by the audit committee significantly influence institutions such as Metropolitan Municipal and District Assemblies QIAR positively.

Results and Discussion

The results of this study revealed significant relationships between audit committee expertise (ACE), audit committee independence (ACI), and audit committee role performance (ACRP) in relation to the quality of internal audit reports (QIAR) within the Metropolitan, Municipal, and District Assemblies (MMDAs) in the Central Region of Ghana.

First, audit committee expertise (ACE) was found to have a significant and positive impact on QIAR ($\beta = 0.263$, $p = 0.000$). This result is consistent with prior studies by Al-Ebel, Baatwah, and Al-Musali (2020), who emphasized that committees with greater expertise provide higher quality internal audit reports. The positive association between ACE and QIAR suggests that audit committees with knowledge and skills are better able to oversee and guide internal audits effectively, leading to more accurate and reliable financial reporting. Abernathy et al. (2017) and Baatwah, Salleh, and Stewart (2019b) similarly argued that experienced audit committees enhance governance effectiveness, promoting transparency and accountability. The findings also align with Agyemang (2020) and Agyei-Mensah (2022), who

highlighted the crucial role of expertise in ensuring the quality of internal audit reports.

Secondly, the study confirmed that audit committee independence (ACI) has a significant and positive relationship with QIAR ($\beta = 0.185$, $p = 0.000$). This supports the work of Mansor et al. (2013), which highlighted the critical role of independence in ensuring credible and unbiased internal audit reports. An independent audit committee is more likely to avoid management interference, thus improving the objectivity of internal audit findings. The result is also consistent with research by Nalukenge et al. (2017) and Bananuka et al. (2019), who found that ACI significantly enhances the quality of financial reports by allowing for impartial and effective audit oversight. This underscores the importance of maintaining independence to foster trust and reliability in audit processes.

Finally, the audit committee's role performance (ACRP) was found to have the most substantial positive influence on QIAR ($\beta = 0.524$, $p = 0.000$). This confirms Pamungkas, Ibtida, and Avrian's (2018) assertion that active performance of audit committees significantly improves the accuracy of internal audits, risk management, and internal controls. Effective audit committee performance not only strengthens internal audit reports but also enhances the overall governance of institutions, as noted by Kaawaase and Nkundabanyanga (2018). The results align with Mardessi (2021), who emphasized that well-performing audit committees foster positive perceptions of internal controls and governance, leading to more comprehensive and trustworthy financial reporting.

Chapter Summary

This chapter presented the results of the study, examining the relationships between audit committee expertise (ACE), audit committee independence (ACI), audit committee role performance (ACRP), and the quality of internal audit reports (QIAR) within the Metropolitan, Municipal, and District Assemblies (MMDAs) in the Central Region of Ghana. The findings revealed that ACE, ACI, and ACRP all have significant positive impacts on QIAR, with ACRP showing the strongest influence. These results align with previous studies, reinforcing the critical role that knowledgeable, independent, and actively performing audit committees play in enhancing the quality of internal audit reports. The findings also underscore the importance of sound corporate governance practices for improving the transparency, accuracy, and reliability of internal audits in public institutions like the MMDAs. This chapter has provided a detailed discussion of the implications of these results, connecting them to relevant literature and theories in the field.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

Introduction

This chapter presents the summary of the findings reported in chapter four of the study. It further draws a conclusion and makes recommendations for MMDAs and recommendations for future research into this subject matter.

Summary of the Study

The study investigated the relationship between Audit Committee Expertise (ACE) and the Quality of Internal Audit Reports (QIAR) within Metropolitan, Municipal, and District Assemblies (MMDAs) in the Central Region of Ghana. Specifically, the research examined three key objectives: the impact of ACE on QIAR, the influence of Audit Committee Independence (ACI) on QIAR, and how the performance of the audit committee affects QIAR. Primary data was gathered from 108 audit committee members working within the MMDAs. The analysis was conducted using the Partial Least Squares Structural Equation Modeling (PLS-SEM) technique, a robust tool for analyzing complex relationships between variables.

The study employed an explanatory research design with a quantitative research strategy to explore the causal relationships among the variables. In the theoretical framework, the resource-based view (RBV) theory was applied to provide context on how the unique knowledge, skills, and independence of the audit committee members serve as valuable organizational resources. The theory emphasizes that organizational performance, including the quality of internal audit reports, can be significantly enhanced when institutions leverage the expertise and independence of their audit committees. Results showed that

ACE has a significant positive impact on QIAR, indicating that audit committees with specialized knowledge and skills are more likely to ensure high-quality internal audit reports. Similarly, ACI was found to have a significant positive relationship with QIAR, suggesting that independent audit committees provide more objective and reliable audit reports. Lastly, the performance of the audit committee also showed a significant positive effect on QIAR, emphasizing that actively engaged audit committees improve the quality of audit oversight and financial reporting processes.

Key summary findings are submitted below:

Audit Committee Expertise and Quality Internal Audit Report

The first objective was to assess the effect of ACE on QIAR. The study revealed that ACE significantly and positively impact QIAR. In addition, the study presented that MMDAs having a knowledgeable and skilled audit committee are likely to experience improved governance effectiveness, which is critical for ensuring transparency and accountability in financial reporting and internal control systems.

Audit Committee Independence and Quality Internal Audit Report

The second objective was to analyse the impact of ACI on QIAR. It was revealed in the study that ACI impact QIARs significantly and positively. The positive nexus suggests that MMDAs with independent audit committees are better positioned to provide credible and reliable internal audit reports. Audit Committee's Role Performance and Quality Internal Audit Report

The third objective was to evaluate the influence of audit committee's role performance on QIAR. The study documented a positive relationship between audit committee's role performance and QIAR. The study advanced

that a well-performing audit committee help ensure that these reports are comprehensive and trustworthy, which, in turn, enhances the accuracy and reliability of financial statements of MMDAs.

Conclusion

The study examined the nexus between ACE and QIAR among MMDAs in the Central region of Ghana. The current study was driven by MMDAs inability to produce QIAR. However, the study argues that MMDAs with higher commitments to composing audit committee with the right expertise are more likely to be concerned about their QIAR. Consequently, the study recognised a positive linkage between ACE on QIAR. Equally, the study found that ACI impact QIAR significantly and positively. Likewise, audit committee's role performance is seen as important promoter of QIAR.

Recommendations

The study presents a set of significant recommendations that can be beneficial for MMDAs:

1. Firstly, MMDAs should prioritize training and development programs for their audit committee members to ensure they remain well-informed and effective in their roles. The training should be specialised on relevant topics such as financial reporting, risk management and governance best practices. Further, MMDAs should review and optimise the composition of audit committee to ensure a diverse set of skills and backgrounds. By taking these proactive steps, they can continually improve their governance practices, enhance transparency and strengthen their ability to manage risks effectively.
2. Secondly, the management of MMDAs are entreated to continuously

emphasise the independence of the audit committee from management and any undue influence. They should also clearly define and communicate the committee's independence in governance documents. Furthermore, MMDAs can develop and implement governance policies that outline roles, responsibilities and authorities of the audit committee. These policies should emphasise the importance of independence in decision-making and oversight.

3. Finally, MMDAs are encouraged to develop and communicate clear and comprehensive terms of reference for their audit committee, outlining its roles, responsibilities and objectives. They should ensure alignment with relevant regulations and governance standards. The decision makers of MMDAs can implement a structured process for evaluating the performance of the audit committee as a whole and its individual members.

Suggestions for Further Research

Further studies on ACE and QIAR should investigate whether the nexus between ACE and the QIARs varies across different MMDAs. Additionally, the study can focus on conducting a longitudinal study to track changes in ACE and their influence on internal audit report quality over an extended period. Explore how these trends evolve with time.

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APPENDIX

QUESTIONNAIRE ON THE RELATIONSHIP BETWEEN AUDIT
COMMITTEE EXPERTISE AND QUALITY INTERNAL AUDIT
REPORT AMONG METROPOLITAN MUNICIPAL AND DISTRICT
ASSEMBLIES IN THE CENTRAL REGION OF GHANA

Dear Respondent,

The focus of my research is to assess the relationship between '*Audit Committee Expertise and Quality Internal Audit Report among Metropolitan Municipal and District Assemblies in the Central region of Ghana*'. Your opinions are much appreciated. This is research and your participation is voluntary. To ensure your privacy, you are not required to provide your name, phone number, email address or any detail that could be used to identify you. Your responses are also confidential. Thank you so much for participating

Section A: Demographic Data

Kindly provide the appropriate response and tick [✓] the box that correctly describes you.

1. Gender: Male ☐ Female ☐

2. Age 21 - 31 years ☐ 32 - 41 years ☐ 42 - 51 years ☐ above 52 years

☐

3. Educational Qualification: Diploma ☐ First
degree ☐ Master's ☐ PhD ☐ Others Specify

4. Income per month 2,001 – 3,000 ☐ 3001 – 4,000 ☐ 4,001 – 5,000 ☐

others

5. How long have you worked as an internal auditor: Less than 1 year ☐ 1-5 years ☐ 5-10 years ☐ 10-20 years ☐ More than 20 years ☐

Section B: Audit Committee Expertise

The table below shows your perceptions about audit committee expertise.

Please indicate the degree of your agreement with each statement by ticking (✓) the most appropriate column: where 1= Strongly Disagree 2=Disagree 3=Neutral 4=Agree 5= Strongly Agree

Description: Audit Committee Expertise	1	2	3	4	5
The committee members have a high level of expertise in their respective fields.					
The committee members possess the necessary knowledge and skills to fulfill their roles effectively.					
The committee includes members who have relevant industry experience.					

The committee members regularly update their knowledge and skills to stay current in their fields.					
The committee's expertise contributes positively to the decision-making process.					

Section C: Internal Audit Independence

The following statements show your perceptions about audit committee independence. Please indicate the degree of your agreement with each statement using the scale above.

Description: Audit Committee	1	2	3	4	5
Independence					
The audit committee operates independently from the management of the organization.					
The audit committee has the autonomy to review and approve internal audit plans and findings.					
The audit committee has the authority to report directly to the board of directors					

or an equivalent governing body.					
The audit committee is free from undue influence or pressure from the organization's management.					
The audit committee actively seeks and considers external expert opinions when necessary.					

Section D: Audit Committee's Role Performance

The table below shows your perceptions about audit committee's role performance. Please indicate the degree of your agreement with each statement using the scale above.

Description: Audit Committee's Role Performance	1	2	3	4	5
The audit committee helps identify and prioritize key areas for internal audit focus.					
The audit committee provides valuable guidance and recommendations to improve internal audit processes.					

The audit committee ensures that internal audit findings and recommendations are addressed and implemented.					
The audit committee enhances the objectivity and impartiality of internal audit reports.					
The audit committee assesses the effectiveness of the organisation's internal control systems and risk management process to prevent financial fraud and errors					

Section E: Quality Internal Audit Reports

The table below shows your opinion about quality internal audit reports in your organization. Please indicate the degree of your agreement with each statement using the scale above.

Description: Internal Audit Reports	1	2	3	4	5
The internal audit reports provide sufficient detail about the audited processes or areas.					
The internal audit reports are timely and					

delivered according to the schedule.					
The internal audit reports accurately identify areas of concern or risk.					
The internal audit reports provide actionable recommendations for improvement.					
The internal audit reports are objective and unbiased.					