UNIVERSITY OF GHANA

AUDIT COMMITTEE AND BANKING STABILITY: A CASE OF LISTED BANKS IN GHANA

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DECLARATION

I do hereby declare that this work is the result of my own research and has not been presented in whole or part by anyone for an academic award in this or any other university. All references used in the work have been fully acknowledged.

I bear sole full responsibility for any shortcomings.

Name	Date	Signature
Belinda Angmorterkie Nyumutsu (10700497)	………..………	……………..

CERTIFICATION

This is to ensure that this long essay was supervised in accordance to the procedural requirement set by the University of Ghana.

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Prof. Kofi Osei Date

DEDICATION

I dedicate this work to Ms. Sarah Arku, my mum for the continuous, relentless support and encouragement. You are the best!

Secondly, to my siblings Bernice and Vera Nyumutsu for their tremendous support to enable me complete this course successfully.

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ABSTRACT

This study sought to investigate how the effectiveness of the audit committee influences banking stability in Ghana. In doing so, the researcher aimed at examining the effect of independence of the audit committee, the size of the audit committee, as well as how the relationship between other variables such as the composition of gender, bank size, among others influence the stability of the bank. Employing a quantitative research design together with a descriptive approach, the researcher collected secondary data on some listed banks operating in the country over the period 2006 to 2016 from the Ghana Stock Exchange (GSE). The study employed a panel data analysis in analyzing the gathered data. The study found out that the size of an audit committee, as well as its gender composition has positive impacts on bank stability and that audit committee independence, the size of board, and bank size have negative impacts on stability. The study therefore concluded that although the independence of the audit committee is relevant for a good auditing job, it does not necessarily ensure the stability of a bank. Rather, the audit committee's size and its gender composition do as these two factors seem to bring on board diverse individuals with a variety of skills, knowledge, and abilities necessary for the job at hand so as to ensure the stability of the bank. The study therefore recommended that banks should take keen interest in the size of the audit committee as well as its gender composition as it is believed that numbers may come along with some significance like allowing for diverse skills, knowledge, and information among others. They should however not disregard the independence of the audit committee as it is relevant too. Future study should however be directed at the role of the audit committee on some performance indicators of the banking industry as it is the performance of these banks that ensure their stability and not directly on stability which is very difficult to determine.

CHAPTER ONE

INTRODUCTION

1.1 Background of study

No unanimously recognized definition for banking stability exists yet. Several definitions have surfaced, most of which define the term (banking stability) in relation to how it may support or disrupt economic and social development (Santos, 2001). The banking sector is one of the most essential and critical sectors to consider when issues bothering economic growth are under study. This is due to the sector's ability to create, accumulate and efficiently distribute credit. The economic environment within which a bank operates may influence the bank's stability (Santos, 2001). Economic environments with low economic growth and inflation are expected to impact negatively on the bank's stability (Demirguc-Kunt & Detragiache, 2011). Through tax revenues, regulatory fees, capital returns and labour income, banks are able to maintain their stability level and positively contribute towards economic growth (Santos, 2001).

According to Demirguc-Kunt & detragiache, (2011) when banks become unstable the flow of income into the markets and households disrupts, resulting in reduced investments, reduced consumption of goods and services and in the worst-case events, the declaration of bankruptcy by affected banks, firms and institutions. When banks become unstable, the government and citizens feel the negative consequences the most, through high cost of living (Honohan and Klingebiel, 2003).

Some of the factors that threaten the stability of banks include but not limited to bank insolvency, systemic banking failure, bank size, Gross Domestic Product (GDP), inflation, money supply and bank panics (Tajik, 2015). Most times, information regarding a bank's financial health is shrouded in secrecy, the information is mainly known by a select few; the executives and to a lesser extent the regulators and external auditors while depositors or the general public possess the least knowledge (Heffernan, 2005). In such situations, individuals whose monies have been entrusted with these banks, stand to risk lumps if not all of their monies unaware of the problems the banks face.

In the absence of effective regulatory disclosures, it could be challenging for the public to detect the prevailing state of any bank (Hefferman, 2005). To remedy such situations, institutional structures such as boards and committees must be put in place to monitor and regulate bank operations as well as disseminate information regarding the state of the bank to the public so as to keep clients up to speed with the state of the bank's financial health (Hefferman, 2005).

These boards and committees are meant to be "instruments of managerial constraints" (Hefferman, 2005). Among these committees is the audit committee. The audit committee has the responsibility to oversee financial reporting systems and processes (Osei-Afoakwa, 2013). The audit committee's primary responsibility is to monitor the internal control system and ensure that they are satisfactory and sound per enshrined accounting standards (DeZoort et al., 2002). "The auditor is expected to be objective, impartial and independent" (Osei-afoakwa, 2013). In the course of their operations and investigations, if they identify weaknesses in the financial system, it is their duty to objectively report their findings with recommendations on how to improve the situation (Heffernan, 2005).

Audit independence has been questioned by most researchers in different studies, however literature on the connection between audit independence and banking stability remains insufficient especially on developing countries like Ghana. Especially in the wake of multiple bank insolvency in recent times. However, amongst the related literature, auditor's independence is recognized as vital to maintaining public confidence in capital markets and for the promotion of integrity of corporate financial statements (Abbott et al., 2004). The purpose of this research however, is to investigate, how the effectiveness of the audit committee influences banking stability in Ghana, and proffer recommendations on how to maintain and improve bank stability in Ghana.

1.2 Problem Statement

After the financial crisis in 2008, the world has focused so much research and attention towards maintaining financial stability (Fajembola, Rahman and Md – Rus, 2018). The impact of this financial crisis on the world's economy was enormous, both the developed and developing countries were affected. As a result, risk management policies have become necessary attempts to maintaining and improving stability in financial institutions the world over, most especially in developing economies in Africa (Folawewo and Tennant, 2008). Inefficient management, non-performing assets and low capital have been identified as typical indicators of unstable banks (Sontakke and Tiwari, 2013).

The need to make banks more robust and resilient to future crisis has sprout lots of solutions and informed recommendation, majority of which can be broadly categorized into structural and regulatory categories (Borio and Zlu, 2012). Banking instability impedes on the world's economic progress.

Viñal and Sayeh, (2011), report that, during the past decade, Ghana's banking system has experienced major structural changes and reforms with the sole aim of "strengthening the regulatory, financial and supervisory framework". However, it has been found that heightened stability risks continue to persist in the extant banking system, due to high non-performing loans and inadequate capital in banks (Viñal and Sayeh, 2011). The continuous manifestation of financial crises and their repercussions has led some scholars to conclude that, the prevailing financial regulatory structures are inadequate to ensuring stability of the financial system in its entirety (Bijlsma, Klomp and Duineveld, 2010).

Strengthening supervisory capacity had been strongly recommended as a crucial effort to stabilize bank risk (Fajembola, Rahman and Md – Rus, 2018; Hefferman, 2005; DeZoort et al., 2002). As a result of this, it is therefore essential to innovate, implement and monitor effective measures to ensure sound internal controls and risk management system. The audit committee is established in banks to do just that (DeZoort et al., 2002). However, the presence of independent directors on the audit committee further contributes towards the strengthening of internal control systems which subsequently reduces control risk (Nehme, 2018). Audit committees have been acknowledged as important towards ensuring a sound and stable banking system (Centre for Advanced Research and Learning (CARL), 2012). Given the importance of banks in the economy, regulators and auditors must be independent, so as to be objective, firm, meticulous and judicious in discharging their duties as they examine financial reports and conduct intermittent investigations to determine if a bank is stable or not (Gup, 1998; Heffernan, 2005).

However, literature on auditors' independence and bank stability is scanty. Studies conducted in related areas do not investigate how auditor independence can affect stability of banks. However, Bouaziz (2012) found a significant and positive relationship between independent audit committee members and the financial performance of firms in Tunisia. This finding is consistent with reports that the services of independent audit committee members could improve corporate performance (Klein, 2002). The purpose of this study is to investigate the relationship between audit committee effectiveness and bank stability of listed banks in Ghana.

1.3 Research Objectives

The main objective is to examine the effect of audit committee effectiveness and banking stability for bank listed on the Ghana Stock Exchange in Ghana.

i. To examine the effect of independence of the audit committee on banking stability in Ghana.
ii. To examine the effect of the size of the audit committee and bank stability in Ghana
iii. To investigate the relationship between other control variables on banking stability in Ghana.

1.4 Significance of Study

In light of the recurrent bank failures in Ghana, it has become necessary to investigate factors that may have accounted for such failures. According to literature when banks become unstable, the repercussions on the entire economy are dire. Hence the need to investigate and identify factors that may maintain or improve bank stability, so as to minimize if not halt factors that may cause further harm to the economy through perpetuating bank instability.

1.5 Organization of the Study

The study was structured into five different chapters. The first chapter introduces the study by giving background information to it; the statement of problem; the study's objectives, significance of the study as well as the organization of the study. The second chapter presents a review of literature highlighting both empirical and theoretical studies relating to the subject. Definitions of key terms and concepts in the topic studied were also highlighted in the second chapter. Chapter three outlines the methodology used for the study which includes the research design, the population sample as well as the process for sampling, the data collection instrument, the procedure as well as time frame and the process used in data analysis. Chapter four presents the data collected as well as its analysis in relation to the stated problem and the objectives set to be met. Chapter five presents a summary of the entire study; conclusions on the study undertaken; the limitations encountered in the process of undertaking the research; and also, significant recommendations for future studies.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter focused on reviewing relevant literature to provide a background to investigate auditor's independence and bank stability in Ghana. This chapter also covers a theoretic and empirical review sections. It also reviewed literature on other variables that have been found to influence bank stability in other parts of the world.

2.2 Concepts and Definitions

Auditor: an auditor is an individual officially authorized to review, examine and verify the accounts of an institution's services and products and produce an official report at the end of the scrutiny. The auditor does this by examining the institutions accounting records and verifying balance sheets. The purpose of this is to improve upon the institution's operational efficiency. There are two types of auditors; internal and external auditors. Internal auditors are usually employees, employed to maintain the efficiency of internal controls system. Whereas external auditors are independent of the institution under scrutiny.

Auditor Independence: this is characterized by the integrity and objective approach to duty exhibited by the auditor. It has been defined as the freedom that auditors demonstrate against agents in an institution, who may have financial interest in being audited.

Banking stability: According to Goodhart and Presaud (2008), defining bank stability is not a straight forward event unanimously agreed across board. Yet, they refer to banking stability, as the outcome of a defined set of measures that takes into account, "the distress dependence among banks in a system."

Bank run: this is said to have occurred when a large number of people withdraw more money than the bank could provide or survive with at the same time.

Insolvency: it is basically defined as the inability to pay one's debts. It occurs when a bank's total liability outweighs its total assets. It may also be said to have occurred when a bank's current income is not enough to settle bills. There are however, solutions like borrowing to oppose insolvency.

System Risk: according to European Central Bank's paper on the concept of systemic risk, "It is the risk of experiencing a strong systemic event" mostly retrogressive in nature. This strong systemic event may emerge within an institution and spread across to other institutions. It may also start from outside institutions and gradually affect institutions within. It may be a micro shock that may affect the financial institution on a macro level or vice versa.

Interconnectedness: this is simply, the link and connection that exist between one bank and the others

Contagion: this is the flow of negative shocks or behavior from one bank to others

Credit Risk: this occurs when a party fails to fulfil the terms and agreement of a financial contract. To be specific, when a client fails to pay their loans within agreed time-frames.

2.3 Background

Literature on auditor independence and bank stability in Ghana is very scanty. Among the few relevant literatures, is a study by Fajembola, Rahman and Md – Rus, on audit committee and banking system stability, posits how critical banking stability is in the smooth running of an economy (Fajembola, Rahman and Md – Rus, 2018). Banks regulate the flow of funds in the economy by taking deposits and giving credits, especially as loans to lenders with interests (Hefferman, 2005). The stability of banks is threatened by so many factors including the effective bank regulations, interconnectedness between banks and auditor's competence (Hefferman, 2005). Effective bank regulations are necessary to protect customers from criminal activities such as fraud and banks from tax evasion and money laundering (Hefferman, 2005). These regulations also restrain the abuse of a particular bank's monopoly power, which could lead to clients paying higher or extra charges for no extra or special service (Scott, 2016). When these consequences occur the stability of banks become threatened (Scott, 2016). Another factor that threatens bank stability is the interconnectedness that exist between banks (Kirkpatrick, 2009). The connection between banks may either have positive or negative effect on the financial system. The positive effect is noticed when other banks come to the rescue of other banks in other to keep them operational (Kirkpatrick, 2009). The negative effect is observed when, due to the connection between banks, stable banks may suddenly become unstable when several banks in the network become unstable (Scott, 2016). To summarize, the connection between banks is both a risk absorber and a risk transmitter (Kirkpatrick, 2009). On auditor's competence, auditors are responsible for the accuracy of knowledge that management and the general public possess as the true financial state of banks (Hefferman, 2005). In cases where critical decisions are made based on inaccurate financial knowledge, the bank's stability becomes defenseless (Dezoort et al., 2002).

To maintain bank stability, certain mechanisms and measures are required. Among these is the effective enforcing of bank regulations on all banks operating in the country and setting up committees to impose some level of managerial restraint (Hefferman, 2005; Ellul, 2015; Sun & Liu, 2014). Bank regulators become aware of the state of the financial system by scrutinizing bank report and conducting their own periodically random investigations (Kirkpatrick, 2009). Objective and independent regulations are necessary to acquiring accurate information in other to inform the public about the true state of the bank. This is to provide reliable foundation to make critical decisions about their finances and investments.

Due to the opacity of general banking operations, information concerning bank's activities are not known to all stakeholders but a privileged few, that is the bank's top management (Heffernan, 2005). Depositors and the general public, for instance are usually clueless about the true state of the financial system. To monitor, and ensure healthy internal controls and progressive risk management culture the audit committee was introduced and established (Dezoort et al., 2002). In the absence of the audit committee, most organizations stand the risk of insolvency (Dezoort et al., 2002). In Nigeria, for instance, many banks have poor financial health mainly as a result of irresponsible audit committees (Musa, 2014; Ojeka, Iyoha & Obigbemi, 2014; Otusanya & Lauwo, 2010; Sanusi, 2010). As the main objective of setting up the audit committee in banks is to monitor risk and financial reporting process. Reports indicate that the committees seem to have been ineffective in discharging its duties (Abiola, 2012; Musa, Oloruntoba & Oba, 2014; Owolabi, 2011; Sanusi, 2010). For instance, financial report's manipulations of the Afribank and other connected financial frauds were reported (Ogunleye, 2015; Owolabi, 2011; Sanusi, 2010). The audit committees in most Nigerian banks are unable to effectively supervise the accounting reports of their banks which are likely to have heightened financial malpractices, hence highly susceptible to insolvency (Musa et al. 2014).

The role of the audit committee has become even more crucial in recent times, as today's banks mainly depend on technology to smoothly run their operations (Hefferman, 2005). This substantial inclination towards technology has made banking operations more complex and easily susceptible to fraud, making it more vulnerable than ever (Basel of Banking Supervision (BCBS), 2015).

Therefore, the need for a body or committee specifically designated to pay meticulous attention to the least step in the banking process so as to curb and maintain the banking systems balance is crucial (BCB, 2015). Independence is critical to an auditor's performance (Stevenson, 2002). As audit goals cannot be achieved without it. It is acknowledged as the basic requirement for an auditor to be able to perform an audit with superiority (Stevenson, 2002). For an auditor on duty must be seen to be free of bias with respect to client and must be recognized and acknowledged as independent by users of the audit report (Stevenson, 2002).

Auditor's independence is necessary in guaranteeing the credibility of information they provide to stakeholders (Sarbanes-oxley act (Sox), 2002). There are two ways to demonstrate independence; the status of the audit organization the auditor belongs to and the reporting levels of the auditor (Ahmad et al, 2009; Cohen and Sayag, 2010). The quality of an audit is greatly influenced by the auditor's independence (Sarbanes-oxley act (Sox), 2002). Fearnley and Beatie (2000), identify auditor independence to exist when there are various perspectives of auditors from different socio-economic backgrounds on an event. Another author defines auditor independence as the chance that an identified anomaly will be objectively reported to both management and the general public (DeAngelo, 1981). Auditor's independence had been categorized in two main types; auditor independence in fact and auditor independence in appearance (IMF, 2011). The former speaks to the auditor's values, principles and mental disposition, and cannot be objectively verified. The latter, however may be verifiable, since it deals with the perceived independence of the organization to which the auditor belongs (Stewart and Subramaniam, 2010).

Seventy-five percent (75%) of all banks in Ghana are subsidiaries of foreign banks. This sort of dominance in the Ghanaian banking industry, makes the Ghanaian banking system so vulnerable to instability (IMF, 2011). Peprah (2018), reports the collapse of some banks in Ghana in the past few months, including the Royal Bank, Unibank, Beige and Sovereign Banks. He further holds that, among the various contributory factors that account for this collapse, auditor ineffectiveness was crucial amongst them. In 2015, according to the Financial Reporting Council of Nigeria (FRCN) some directors and auditors of StanbicIBTC bank in Nigeria were penalized over issues connected with manipulations in the 2014 and 2015 financial reports. Peprah (2018), therefore holds that for auditors to be effective in preventing banks in Ghana from insolvency, auditors must be truly independent in discharging their duties i.e. being fearless and objective in their opinions and recommendations to both the management board and other stakeholder. One way for this to happen, is for auditing firms to supervise their staff on duty, so as to ensure they operate according to official regulations and standards.

2.4 Theoretical Review

2.4.1 Financial Stability Theory

This is a state of a bank or any financial institution to resist or be impervious to continuous economic shocks (Heffernan, 2005). This state is demonstrated by the financial institution when it continuously performs its basic functions, such as intermediations of funds in the face of obvious economic shocks.

Shocks in the financial sector are unescapable. Hence the need for measures and regulations to enhance the robust nature of financial institutions. Unlike stable financial institutions, the unstable ones lack the fundamental pillars to resist these shocks when confronted, resulting in them becoming insolvent (Sun & Liu, 2014).

Some causes of financial instability include but not limited to insufficient accounting and audit regulations and weak supervision. In Nigeria, for instance, many banks have been found to engage in financial and corporate frauds in addition to diversion of bank funds for personal gains (Otusanya & Lauwo, 2010; Sanusi, 2010). Abiola (2012) also details evidence of corporate frauds and unethical practices which undoubtedly indicates that there were lapses in the internal control processes of several banks in Nigeria.

Due to the impactful effect of major financial crises on the financial system in the past, efforts to develop measures to protect the system against such impacts in the future has become a major topic for discussion for some time now.

Among the core areas identified in literature is the role that auditors play in maintaining and improving a financial institution's stability. Auditors accomplish this role by providing objective and accurate pictures of the financial institution under scrutiny to stakeholders for concrete and swift decisions to be taken to manage inherent risk.

2.4.2 Systemic Risk Theory

Though no universally accepted definition exists for defining systemic risk in the financial sector, Bijlsma, Klomp and Duineveld, (2010), hold that, during attempts to define the term, the differences between financial intermediaries and other firms should be fundamental in the definition. The term had been broadly defined as the chance that a systemic crisis is inherent in a financial system (Bijlsma, Klomp and Duineveld, 2010). It is characterized by three main factors; initial shock Propagation and amplification and then subsequently, the disruption of the financial sector (Centre for Advanced Research and Learning (CARL), 2012). Financial crises from one bank transfers to other banks (Hefferman, 2005). Interconnectedness accelerate the transmission of crisis from one institution to multiple banks and produce a contagion effect (Heffernan, 2005;

Scott, 2016). Once it begins, contagion could result in bank runs especially when not quickly curtailed and this could trigger the failure of several banks and lead to a financially weak system. When the banking system faces crises, it usually coincides with, or precedes, a substantial economic slowdown (Hogart, Reis, and Saporta, 2002, Boyd, Kwak, and Smith, 2005, Serwa, 2007, Kroszner, Laeven, and Klingebiel, 2007, Dell'Ariccia, Detragiache, and Rajan, 2008)

To prevent more banks from destabilizing due to a particular bank's instability, the unstable "bank must internalize the external effects of their own risk" (Hogart, Reis, and Saporta, 2002). However due to the lack of concern for affecting other banks, investments towards reducing the chances of spreading crises to other banks is very little.

The cost of diffusing instability to other banks on a national scale, is very expensive. Therefore, efforts towards controlling the situation has given rise to state operational regulations aimed at minimizing if not completely halting systemic risk among operating banks in the country. The instability of several banks could occur due to the interconnectedness of the banking system (Scott, 2016).

This theory describes the far-reaching consequences of in-effective banking regulations in a state. It further highlights the danger of bank instability due to interconnectedness and the need to explore best practices and options to resist crises and maintain stability among banks at all times.

According to the Institute of Chartered Accounting (2005), agency theory is an economic theory of accountability. It also explains the development of the audit. The agency theory also explains the relationship that immediately emerges from the pact between the principal and agent. In the wake of this agreement the agent's work is in congruence with the principal's motives and vision.

The principal – agent conflict is explained in agency theory as the conflict that emerges when the principal distrusts the agents because the agent has begun to work for his own self-interest, which is not always in line with the principal's. This typically occurs when the principal and agent hold conflicting motives on what is good for the institution. When principal - agency conflict exists, it results in agency cost; which is defined as the losses that arise due to conflicting interests and motives (Colbert & Murray, 1999).

For there to be some stability and operational progress in the institution, the motives and visions of both principal and agent should be aligned. However, in situations where the conflict still exists, the function of the auditor becomes most relevant to bridge the conflict by providing objective reports on operational activities so as to assuage inherent distrusts between principal and agency, so as to further foster trust and stability within the institution (Safrilian et al, 2018). In a seminal study by Colbert and Murray, (1999), on the role of the audit and agency theory, hold that the auditor achieves stability in financial institutions by monitoring the agent's activities, so as to objectively attest to their performance.

2.5 Empirical Review

A study on auditor's independence and audit quality; evidence from banks in Ghana, focused on twenty-eight (28) banks, that are bound to produce auditor - certified audited financial statements to firms in Ghana. From twenty-eight (28) only nine (9) was used for the study due to the lack of needed information for the purpose of the study. The sampling technique used for the study was purposive sampling. The sample of 9 banks was made up of only banks that publish their annual report. The data source chosen for the study was secondary data. The researcher used mainly STATA 9 package for the study. The method of analysis used was descriptive, correlation and panel regression data analysis. Results from the study show that there is a positive relationship between audit fee and total bank asset. This shows that banks that keep assets that are most relevant to their day to day operations avoid excessive audit fee (Asante, 2015).

Due to the prevailing trends in globalization and technological advancements in the financial sector, the need to identify and examine predictors of banking stability has never been this crucial (Mirzaei, Lui and Moore, 2013). Mirzaei, Lui and Moore, used primary data for the study. The data was obtained from the Bureau van Dijk. The data accounts for ninety percent (90%) of the countries under study's assets. The data was filtered using lots of standards like, the activeness of the bank and the need of the bank to have more than one billion USD in total assets. With a sample size of thousand nine-hundred and twenty-nine (1929), out which three hundred and eight (308) were banks from emerging economies and thousand six-hundred and twenty-one (1621) were banks from advanced economies. The data period of interest was between 1999 – 2008. The study found that market power affects performance both directly and indirectly through other key determinants. The study also found that variables such as ownership status, regulations and bank age influenced bank stability in emerging economies. The study further found that stock market and bank size (small banks) drive bank profitability and stability (Mirzaei, Lui and Moore, 2013; Abel, Le Roux and Muntandwa, 2018). A related study has also found that one way to ensure the stability of a bank is to consistently yield profits (Anthanasoglou et al, 2008). As these profits collectively, act as efficient and effective shock absorbers during financial or related crises. Pasiouras and Kosmidou (2007), also found that "capital ratio, cost to income ratio and loans to customers and short-term funding, bank size, inflation, Gross Domestic Product (GDP) for five hundred and eighty-four (584) domestic and foreign commercial banks were significantly related to bank profitability regardless of whether the bank is owned locally or foreign". In another study that used data sets of twenty-three (23) developing countries and seventeen (17) developed countries between the period of 1999- 2009, found that the relationship between market structure and profitability is positive and significant (Molyneux and Thornton, 1992).

In a study by Ongore and Kusa, (2013), on determinants of financial performance and commercial banks in Kenya, used secondary data that contained accounts of all commercial banks in Kenya. Using panel data, they were able to track each banks behavior over time (Guyarati, 2003). With a sample size of thirty-seven (37) commercial banks, the study focused on both foreign and domestic banks. Twenty-four (24) of the thirty-seven (37) banks were owed by nationals whereas thirteen (13) were foreign owned. During the study, data collected was analyzed using Microsoft excel and economic view software. To determine the relationship between the independent and dependent variables, multiple linear regression model was applied. Findings from the study indicate that bank specific factors have no significant association with bank performance. It also found that the influence of macroeconomic indicators like Gross Domestic Product (GDP) and inflation were not very strong on bank performance. The study however found a significant association between capital adequacy and management efficiency on bank's financial performance, which is consistent with a study by Mirzaei, Lui and Moore (Mirzaei, Lui and Moore, 2011). Asset quality of a financial institution was also found to greatly influence the general performance of banks in Kenya.

In measuring the effect of a variety of bank's profitability and market characteristics, Demirguc – Kunt and Huizinga (1999), found that banks with so many assets and less concentration are more profitable. Using a total of eighty (80) bank-level data from both emerging and advance countries, the study further found that advanced countries as compare to emerging countries earn more profits when operating in their home countries. The study also reports that inflation and interest rates affect emerging economic countries, due to the fact that banks in developing countries are more likely to have assets that do not produce enough funds to meet client and investment needs. In a later study by Beck, Demirguc – Kunt and Levine, it was found that banks that are more concentrated have the least chance of being affected by systemic risk (Demirguc – Kunt and Levine, 2006). In a conflicting and seminal study by Panzar and Rosse, concentrated banks were found to be problematic in the entire financial system (Panzar and Rosse, 1987).

On measuring bank performance in the united states, using variables such as return on assets, on equity and several other indicators of credit quality, Jayaratne and straham, found that after the US lifted the ban on banks' ability to geographically expand, losses realized on loans dropped sharply (Jayaratne and straham,1998). In an opposing study by Dick, he found that, during the lifted ban period, loan losses got higher than before (Dick, 2006).

In another study by Jokipii and Monnin (2013), on the impact of banking sector stability on real economy, using a panel VAR methodology, for eighteen (18) samples of OECD countries, the study found a positive link between real output growth and banking stability. For periods of banking stability, are usually tailed by increase in real GDP. In this study however, the nexus between inflation and banking sector stability seem not be in existence. Peek, Rosengren, and Tootell (1999, 2003), Romer and Romer (2000) show that incorporating confidential supervisory information about bank health improves central bank forecasts of both unemployment and inflation, and that in fact, the Federal Open Market Committee (FOMC) consider this information when setting monetary policy. Accordingly, Jokipii and Monnin (2013) recommends, the need for much attention to be paid to the banking stability during the implementation of any economic policy. In a more general sense, policy makers must have in their calculation prevailing measures of the banking sector during their modelling procedures.

In a study on bank competition and stability, the study's literature identified two major approaches to assess the relationship between competition and stability; the multi-country step and the single country step (Beck, DeJonghe and Schepens, 2013). The former has to do with assessing the relationship across both developing and developed countries, whereas the latter focuses on the relationship within either developing countries or developed ones. Using several data sources, a sample of seventy-nine (79) banks, the study chose to assess the relationship using the multi-country approach. Results from the study show a positive relationship between market power and bank soundness. From the outcome, banks with low market power are more likely to be unstable, since they may be prone to take so more risk, in a desperate attempt to improve their market power and stability. A related study by Schaeck, Cihak and Wolfe (2009), found that bank competitions reduces bank crises.

During an investigation into the structure and source of profitability between banking systems in the 1980's and those in the 1990's. The study found that banks in Greece realized less profits than those in Spain. For banks in Spain were more competitive than those in Greece (Staikouras and Wood 2002; Abel, Le Roux and Muntandwa 2018). However, other studies have found that banks that participate in intense competitions are more likely to realize a decline in lending rates (Koskela and Stenbecka, 2000). Due to this, and opposing study to Staikouras and Wood, has found that intensive competition among banks has led to more non-paying loans (NPL). In a more recent and directly opposing study by Fungascora and Weill, (2009), banks in competition were found to be more vulnerable and unstable.

The model adopted for this study as displayed in the next chapter (methodology), demonstrates that variables such as audit independence, audit committee size, gender composition, board size, non – executive directors, bank size and inflation influence bank stability in one way or the other.

Supported by extensive literature, these variables were carefully selected to be included in this study's model. Auditors independence for instance, had been found to influence the stability of banks, due to the fact that independence is a crucial attribute when conducting auditing in any firm (Dezoort et al, 2002). For when auditors are independent or perceived to be, the report they present to the firm's executives after their scrutiny can be trusted to be the most accurate representation of situations in the firm (Stevenson, 2002). The size of the audit committee has also been found to be a crucial attribute, as it determines the effectiveness of the audit committee in discharging its duties to prospective clients. A study by Abbot, Park & Park, (2000), demonstrates that an audit committee with a large size is more effective than one with a smaller size. The gender composition of key sectors of the banking industry has also been found to influence the general stability of banks that is in areas such as users, provider and regulators. In banks where more executive positions are held by females, the banks stability has been found to have improved compared to ones with more males (Sahay & Cihak, 2018). Another variable that was included in the model below, is non – executive directors. These are independent executive directors with the audit team. Their role in the auditing process cannot be overstated, as the measurement of audit independence is based on the number of non – executive directors in the audit team (Mernet, 2015). The bank's size is another variable included in the model. According to an International Monetary Fund (IMF) report in 2011, the bigger the bank the more stable it is, whereas the smaller ones are more likely to be vulnerable to the daily changes in the banking system (IMF, 2011). The model developed for the purpose of this study

2.6 Conclusion

To conclude, this chapter has focused on a wide variety of literature, ranging from how regulations, bank concentration, competition, market power, bank ownership status, bank size, geographic location, macroeconomic indicators and non-performing loans influence institutional performance, specifically bank stability. The literature review showed many conflicting findings. Most studies adopted different research methods and approaches to come to the conclusions realized. Most studies also focused on studying the two different economies; the emerging and advanced economies. This study however seeks to add knowledge to existing literature by focusing on auditor independence and bank stability in Ghana. Especially in this critical time in Ghana’s economy where most banks have become insolvent.

CHAPTER THREE

METHODOLOGY

3.1 Introduction

This chapter outlines the methods used for this study. It indicates the methods used and the reason/s why the method is most appropriate for the study. It defines the variables under consideration and specifies the source of data used, the data collection procedure, the sampling technique of choice and the data analyses tools that was adapted.

3.2 Research Design

Polit et al. (2001) is of the view that research design is an overall arrangement for conducting the study to support your answers for the research question. Saunders et al. (2007), also defines research design as the general idea of how the research questions would be answered. The research design reveals the steps which was followed in conducting the research. The study employed quantitative approach. Quantitative research is objective, measurable and usually stresses quantification in collection and analysis of data (Bryman & Bell, 2007). In addition, descriptive research was used in this study because it gives correct profile of the instructions selected event or organisation. Yauch and Stendel (2003) posited that employing a quantitative approach normally gives outcomes that are greatly independently of the one carrying out the study since it entails thorough processes and procedures that places a limit on the researcher’s influence on the results of the research hence making it possible to come out with a better, true picture and fair state of affairs as far as the subject matter being studied is concerned.

3.3 Population

For the purpose of the study, the population considered was all banks operating in Ghana, duly licensed and registered from 2006 to 2016. Population can be explained as the entire group of individuals, events or things of interest that the researcher desires to study. Babbie (2007) explain that population connotes a group that the researcher has interest in for the purpose of generalization. Whereas, Bajpai (2009) explain that a population is a group that should have information which is relevant to the research. There were thirty-two (32) commercial banks in Ghana as at 2016. The population studied was considered as result of the objective of the study, which is to explore the relationship between auditor's independence and bank stability in Ghana.

3.4 Sample and Sampling Technique

Based on the population under study, which is made up of both listed and unlisted banks, the study focused on only banks that are listed on the Ghana Stock Exchange (GSE) during the period under study. The selection criteria that was used in this study is that, the banks selected must have been in Ghana, must have been listed for at least three years and all the data needed for the study must be available for collection. The banks included in the study are GCB Bank formerly known as Ghana Commercial Bank, Republic Bank formerly known as HFC, ECOBANK Ghana, Standard Chartered Bank, CAL Bank, UT Bank, SG -SSB Bank and Access Bank Ghana.

3.5 Data Source and Analyses

This study employed the panel data analysis which is a combination of time series and cross-sectional estimations. The panel data analysis has the ability to reduce the weaknesses and errors presented by the time series. A study conducted by Aranello (2003) reports that, while the cross-sectional series focus on the sample and observations in a particular point in time, the time series focuses on the variables and their variations across time. The stated shortcomings of the time series and cross sectional is only reduced and elevated with the use of panel data and hence the study employs it to be able to attain its objectives. Bank level data was collected from the annual reports of the banks and there were some form of computations to ensure that the data was more reliable. These data were obtained from the GSE website. Additionally, data for macroeconomic variables which include Inflation and Gross Domestic Products were obtained from Bank of Ghana website.

3.6 Model Specification

The objective of this paper was to examine the impact of auditor independence and audit committee size on the stability of banks listed in Ghana. In other to find the link between the variables, Pearson Correlation Coefficient was computed. There are some advantages that makes the panel data methodology suitable for this study. The methodology assumes heterogeneous nature of different companies like widely dissimilar elements, more degrees of freedom and variability in data. Therefore, the general form of the model was concluded as;

$$Y_{it} = \beta_i + \sum_{a_{it}}^{n} \beta_1 X_{it} + \lambda_t + \epsilon_{it}$$

Where Y_{it} = Banking stability, β_i = The intercept for each bank, X_{it} = Another independent variable, λ_t = Time fixed effect, ϵ_{it} = Error term, a_{it} = Represents the variables which vary across time and entity.

In order to achieve the objective of the study, the researcher hypothesized that these explanatory variables will influence banking stability. Following the study by Sun and Liu (2014), the model is specified below; the indices *i,t* stands for bank and time respectively.

$$BSTAB_{i,t} = \beta_o + \beta_1 ACIND_{i,t} + \beta_2 ACSIZ_{i,t} + \beta_3 BKZ_{i,t} + \beta_4 BSIZ_{i,t} + \beta_5 GEND_{i,t}$$
$$+ \beta_6 NONEXEC_{i,t} + \beta_7 INF_t + \varepsilon_{i,t} \ldots \ldots \ldots \ldots (Eq)$$

$\beta_{i,}$ $_i$= 1, ……….,6

w_i= intercept for each bank

λ_t = Time fixed effect

ϵ_{it} = Error term

Bank stability was measured as Z – score, ACIND represents audit independence, ACSIZ represents audit committee size, GEND represents Gender Composition, BSIZ represents Board Size, NONEXEC represents number of Non-executive directors, BKZ represents bank size and INF represents Inflation Rate.

3.7 Variable Selection and Justification

This part defines and justifies the motives behind the selection of dependent and explanatory variables. This part also specifies the expected signs of the various variables selected and also states the variables sources and measurement of each variables.

3.7.1 Dependent Variable for Bank Stability

The Bank Stability is the explained variable in the model employed and it is measured by the sum of return on assets and capital adequacy all divided by standard deviation of return on asset.

3.7.2 Audit Committee and Bank Stability

The relationship between audit committee's and extant corporate bodies had been found to be positive (Choi, 2013). As a result of efforts to keep banks operational and safe from being insolvent, the role of the audit committee cannot be overemphasized. Crucial among the many influences of the presence of the audit committee in firms is to constrain management from uncalculated risk decisions (Salloum, Azzi & Gebrayal, 2014; Sun & Liu, 2014). Their presence among a firm's executive board proves the board's inclination to foster transparency and objectivity in dealing with the firm's operations (DeZoort et al, 2002). For it is considered a vital and assistive branch of any bank's risk management committee, with the sole purpose of enhancing the bank's stability (Choi, 2013).

3.7.3 Independent Variables Selection and Justification

Independence of the Audit committee

A crucial predictor of independence within an audit committee is the number of independent directors that makeup the committee (Sun & Liu, 2014). This is because independent directors are expected to have no ties with the firm's executive boards (Bouaziz, 2012; Bronson et al, 2009). Hence scrutiny and reports from an audit committee, consisting of mainly supervisors that are independent of the firm under audit, are considered objective, more accurate and trustworthy.

Independence of audit committees was considered as a vital solution to curb significant financial scandals in the future (Bronson et al, 2009). In Tunisia, Bouaziz (2012) found that there is a positive relationship between independent audit committee and financial growth. For independent audit committees, insist on strict scrutiny and better risk management practices that results in improved stability in banks.

The Size of the Audit Committee

The number of individuals that makeup an audit committee, defines an audit committee size (Al-Matar, Al-Swidi, & Fadzil, 2014). The relationship found between audit committee size and bank performance in Tunisia was significantly positive (Bouaziz, 2012). The theory of resource dependence, states that a large group of individuals with enough available resources and a common purpose are expected to be effective in discharging their duties (Al- Matar, et al.2014). A larger group size, presents a variety of individuals with a wide variety of technical skills, knowledge and talent in the banking industry. An opposing view point by Upadhyay and others, hold that a large group of individuals are more likely to slow productivity, due to the probability of ill monitoring and ineffective group coordination practices (Upadhyay, Bhargava & Fair Cloth, 2018). Among the key influence features that influences that effectiveness of the audit committee is its size (Fajembola, Rahman, Md- Rus, 2018).

3.7.4 Control variables

The control variables of banks refer to other factors or variables that also have influence on the dependent variable (bank stability) aside the main independent variables which are the variables of interest are (auditor's independent and audit committee size). Literature reports that bank specific and macroeconomic dynamics consequently affect the bank's stability (Flamini et al. 2009). For the purpose of this study, board size, gender, non-executive directors, bank size, capital adequacy and inflation will be considered as control variables.

Bank Size

Bank size is represented by the log of the total assets of the banks. A larger bank size implies the bank has more assets and can easily maintain its stability whereas a smaller bank size implies the bank faces the risks of not being stable. On the whole, the public view a larger bank or a bank with more assets as a bank that has the potential to be stable for a long time and would love to put their money in the bank whereas the opposite is equally true. Although some studies such as Nwogo (2017) do not view bank size as a significant variable in determining bank stability, this study expects a positive relationship between bank size and bank stability.

Board Size

Board size has an important relationship with bank stability in terms of expenses. Board size is measured by taking the number of all the board members of the banks, however, the true value is had when the expenses expend on the board members is made available. With that, the higher the number, the lesser the stability of the bank. The implications of this phenomenon are that when the composition of the board increases, it affects the banking system stability so much as it increases the allowances to be paid thereby increasing the expenses to be incurred by banks. As the expenses increases, the stability decreases especially if the ban is not able to defray the board allowances and expenses. According to Ibiam and Nwogo (2017) when the board size increases it increases the allowances to be paid the members and hereby increases the expenses the bank itself pays. The expectation is that; board size is either positive or negative to bank stability.

As another explanatory variable, gender composition of the board represents the ratio of female members of the board of directors to male members. Generally, the higher the board gender composition, it implies there is variety in the composition and ideas and decisions may likely not come from one source of decision maker. As a result, decision made about strategic, tactical and operational activities are highly efficient and up-to-the-task. Such efficient strategic and operation decisions may help the bank have stability, growth and higher profits. The expectation is that, gender composition either has positive or negative relationship with bank stability of banks in Ghana.

Number of Non-Executive Directors

Higher number of non- executive independent directors promotes rational decisions and creates value for the shareholders. It represents the ratio of non-executive members to total board members. This therefore implies that if the ratio is high, there are more non-executive directors that serve on the board. It thus implies that the bank may have more varying ideas and quality decisions taken by many people. The higher the ratio, the lower the bank stability and vice-versa. Therefore, the expectation is that a negative relationship between non-executive directors and bank stability should exist in the banking sector. This is confirmed in a study by Ojeka, Iyoha, & Obigbemi, (2014) where a negative relationship between number of non-executive directors and banking profitability and stability is found.

Inflation

The study utilizes inflation as control and explanatory variable. It might be noted additionally that, inflation is the steady increment in the costs of goods and services in the nation. Inflation influences the whole economy in all angles. It influences the cost of doing business. This implies that the higher the inflation of the economy, the higher the cost of doing business and the expenses incurred in the bank's daily operations and which in turn threatens the stability of the banks. Also, the lower the inflation, the lower the expenses incurred and the higher the bank stability or the lower the treats to the bank stability. Therefore, this study expects a negative relationship between bank stability and inflation.

CHAPTER FOUR

RESULTS AND DISCUSSION OF FINDINGS

4.1 Introduction

This chapter of the study covers an analysis as well as a discussion of the computed data gathered on the banks sampled. The chapter contains a presentation of the descriptive statistics, a correlation matrix, and a discussion of the empirical results derived from the regression model employed. The findings made are presented in tables.

4.2 Descriptive Statistics

Table 4.1 below has in it a summary of the descriptive statistics of the variables that are employed in the study's regression model. The generated statistics gives an overall depiction of the used data in the model in order to allow the researcher the chance of looking through for figures that is uncertain. The key descriptive measures presented are the observations, mean, maximum, and minimum values, as well as the standard deviation of the variables emphasized over the period on which the study is focused.

Table 4.1 Descriptive Statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
ZSCORE	60	24.323	20.430	0.993	84.493
ACIND	71	4.127	0.827	3	5
ACSIZ	71	5.127	0.827	4	6
SIZ	71	9.465	5.959	4	12
GEND	71	0.120	0.105	0	0.3
BKS	80	5.964	0.511	4.419	6.904

Source: Author's computation (2019)- Zscore represents the explained variable which is Bank Stability, ACIND stands for audit committee independence, ACSIZ stands for the size of the audit committee, SIZ stands for board size, GEND represents gender composition whereas BKS represents bank size.

The table above clearly depicts the variances across the selected banks as shown in terms of average, the standard deviations, and the minimum and maximum values of the study's variables over the selected period under study.

ZSCORE which represents bank stability has an average of 24.323 with minimum and maximum values of 0.993 and 84.493 respectively together with a standard deviation of 20.430 for the period under study. ACIND which represents the independence of the audit committee has an average figure of 4.127, a standard deviation of 0.827, and a minimum value of 3 and a maximum value of 5. ACSIZ on the other hand has an average of 5.127 which slightly higher than the average of the committee's independence. It has a standard deviation of 0.827 just like the committee's independence, and minimum and maximum values of 4 and 6 respectively. The data computed shows an average of 9.465 for board size, with a maximum value of 12 and 4 for its minimum value. Board size recorded a deviation of 5.959 as shown in *table 4.1* above. The findings made also had gender composition size which is represented using GEND recorded a 12% average, a deviation of 10.5%, with nothing as a minimum value and a maximum value of 0.3 which is negligible. Finally, bank size saw an average of 5.964, a deviation of 51.1% with 4.419 and 6.904 minimum and maximum values respectively.

The actual variations for the bank specific variables as measured and shown in the standard deviation per the findings made is moderately high which clearly shows that the banking sector is full of banks with similar features hence making them slightly homogenous.

4.3 Correlation Matrix

The correlation matrix for the variables used in the study's regression model is presented in *table 4.2* below. The coefficient of the correlation gives an index direction which is indicated by the sign of the coefficient. It also provides the extent of the relationship which is indicated by the total value of the coefficient between two sets of variables with no implications of any causality. The correlation matrix is employed to categorize variables that are highly correlated and cannot be positioned together in the same model. It is used to show any variable of multicollinearity in the data and also to show its relevance to the study.

Multicollinearity refers to the situation where some or all of the explanatory variables are highly correlated with each other which makes it difficult to tell which is having influence on the dependent variable. Multicollinearity, in its worst case, has all the p-values of the regression model to be insignificant with the overall F-statistics being significant.

Table 4.2 Correlation Matrix

	ZSCORE	ACIND	ACSIZ	SIZ	GEND	BKS
ZSCORE	1					
ACIND	-0.0665	1				
ACSIZ	0.2107	0.5403	1			
BSIZ	0.044	0.5821	0.7318	1		
GEND	-0.0922	0.7786	0.2968	0.5342	1	
BKS	-0.1276	0.5069	0.266	-0.004	0.3099	1

Source: Author's computation (2019)- Zscore represents the explained variable which is Bank Stability, ACIND stands for audit committee independence, ACSIZ stands for the size of the audit committee, SIZ stands for board size, GEND represents gender composition whereas BKS represents bank size.

With the use of the method employed in Kennedy (2008) as standard, this study made use of a threshold of 0.7 of Pearson's correlation for high collinearity amid the variables used. The data presented in *table 4.2* above shows no evidence of higher correlation among the variables employed in the model. The independence of the audit committee has a correlation of -0.0665; the size of the audit committee's is 0.2107 whereas the correlation of board size is 0.044. Gender composition size has a correlation of -0.0922 while bank size's is -0.1276. From the figures presented, it is evident that the audit committee's size as well as the size of the board is the only variables with positive impact on stability of the banks under study over the period.

4.4 Empirical Results

The Ordinary Least Square (OLS) technique was employed for the estimation of the gathered data on the sampled banks over the period under study. This study finds the Ordinary Least Square appropriate based on its ability to meet the OLS assumptions. There was a normal distribution of the data gathered with no sign of multicollinearity among the variables. The Robust Ordinary Least Square technique was used in place of the standard OLS so as to alleviate the impact of outliers. In the appendix of this study is a normality test table; the Variance Inflation Factor (VIF). Below is *table 4.3* showing the empirical results generated from the estimation done which indicates the implication of the control variables on the stability of banks.

The subsequent paragraphs in this section of the study discuss the implications of each of the variables on the stability of banks using the regression analysis. The immediate effect is depicted by the sign of the coefficient of the variables employed in the model.

Table 4.3 Regression results: Robust Ordinary Least Square

Source	**SS**	**Df**	**MS**	
Model	4260.0	5	852.0	
Residual	13322.0	41	324.9	
Total	17582.0	46	382.2	
ZSCORE	**Coef.**	**Std. Err.**	**T**	**P>t**
ACIND	-8.069	6.434	-1.250	0.217
ACSIZ	9.013	5.338	1.690	0.099*
SIZ	-0.626	0.783	-0.800	0.429
GEND	71.991	41.163	1.750	0.088*
BKS	-19.483	8.765	-2.220	0.032**
CONS	131.545	50.876	2.590	0.013
Number of obs	47			
F(5, 41)	2.62			
Prob > F	0.038			
R-squared	0.242			
Adj R-squared	0.150			
Root MSE	18.026			

Source: Author's computation (2019)- significance level 1% (***), 5% (**) and 10% (*)- Zscore represents the explained variable which is Bank Stability, ACIND stands for audit committee independence, ACSIZ stands for the size of the audit committee, SIZ stands for board size, GEND represents gender composition whereas BKS represents bank size.

As presented in *table 4.3* above, the independence of the audit committee which is represented by ACIND has a negative relationship with the stability of banks. In other words, a 1% increase in the independence of the audit committee should cause an 806.9% decrease in the stability of banks. Auditing or auditors in the case of the banking sector are expected to monitor risk and financial reporting process. As made mention of in Sarbanes-oxley Act (Sox) (2002), the independence of auditors is deemed necessary in assuring the integrity of information provided to stakeholders. This impact of the audit committees' independence in the long run is expected to be positively impacting on the bank however as evident based on the estimation done using the model employed, the impact of independence with regards to the audit committee is negative. Meaning, it does not have any positive impact on the stability of banks. The result however is not different from what was realized from the correlation matrix as presented in *table 4.2* above.

Audit committee size on the other hand based on the results recorded from the estimation has a positive and significant association with the stability of banks. Precisely, a one-point upsurge in the audit committee's size should increase the stability of banks by 901.3%. As mentioned earlier in this study size does come along with some impacts many of which are positive. A larger size of an audit committee is believed to have with it some benefits as it presents a variety of individuals who have a wide variety of technical skills, knowledge, and talent relevant for the role to be performed.

Board size as shown in *table 4.3* above shows a negative relationship with bank stability by a coefficient of -0.626 indicating a 62.6% decrease in stability should there be a one-point increase in board size. This therefore implies that banks should decrease the size of their board so as to increase the scope of stability to be caused by auditing. Clearly, this indicates that the size of the board increases cost as supported by the findings of Ibiam and Nwogo (2017) which will in turn affects its stability.

The composition of gender as seen in the table above is also positively linked to bank stability. It indicates that a one-point increase in gender composition of the audit committee causes a 71.991 increase in the stability of banks. This is in consistence with the findings of Wen et al (2002) and Owen and Temesvary (2017) which mention that when there is a threshold of women representative on the board of a bank which in this case is the audit committee, there happens to be an effective auditing of the bank as it give room for dynamics and diverse contributions to increase its stability.

Finally, the coefficient of the bank size shows a negative relationship with Zscore which represents bank stability. This is to say that a large sized bank or an increase in a bank's total asset which is proxy for bank size is likely to cause a decline in the stability of banks. From the table above, bank size has a correlation of -19.483 which signifies a 19.483 decline in stability at every point increase in its total asset. This therefore suggests that large banks have significantly higher systemic risk due to elevated levels of stress evident in these large banks. The findings as made supports that of Varotto and Zhaao (2018) among other scholars whose works make similar assertions of large sized banks being exposed to a high systemic risk which could in turn lead to instability in the operations of the banks.

CHAPTER FIVE

SUMMARY, CONCLUSION, AND RECOMMENDATIONS

5.1 Introduction

This chapter of the study covers a summary of the entire study conducted, and then conclusions drawn based on the findings made, as well as recommendations that are perceived will be of relevance to stakeholders and shareholders in the banking industry especially regarding the role of the audit committee in ensuring the stability of banks. The concluding aspect of the study also presents areas that need to be focused for future study on the audit committee and bank stability.

5.2 Summary

This study sought to investigate how the effectiveness of the audit committee influences banking stability in Ghana. In doing so, the researcher aimed at examining the effect of independence of the audit committee, the size of the audit committee, as well as how the relationship between other variables such as the composition of gender, bank size, among others influence the stability of the bank. Employing a quantitative research design together with a descriptive approach, the researcher collected secondary data on some listed banks operating in the country over the period 2006 to 2016 from the Ghana Stock Exchange (GSE). The study employed a panel data analysis in analyzing the gathered data. Bank level data on the annual reports of the banks were gathered from the Ghana Stock Exchange whereas data on macroeconomic variables were gathered from the Bank of Ghana website. A summary of the findings made from the computations done using the regression model employed are as follows.

Audit committee independence has a negative relationship with the stability of banks. This impact of the audit committees' independence in the long run is expected to be positively impacting on the bank however as evident based on the estimation done using the model employed, the impact of independence with regards to the audit committee is negative. Meaning, it does not have any positive impact on the stability of banks.

Audit committee size on the other hand based on the results recorded from the estimation has a positive and significant association with the stability of banks. A larger size audit committee is believed to have with it some benefits as it presents a variety of individuals who have a wide variety of technical skills, knowledge, and talent relevant for the role to be performed.

Board size as shown in *table 4.3* in the previous chapter shows a negative relationship with bank stability. It therefore implies that banks should decrease the size of their board so as to increase the scope of stability to be caused by auditing

The composition of gender as seen in the table above is also positively linked to bank stability. It indicates that a one-point increase in gender composition of the audit committee causes a 71.991 increase in the stability of banks.

The study finally found out that the coefficient of the bank size shows a negative relationship with ZSCORE which represents bank stability; hence a large sized bank or an increase in a bank's total asset which is proxy for bank size is likely to cause a decline in the stability of banks.

To sum it all up, it was just the audit committee's size as well as its gender composition that had positive impacts on stability. The others, audit committee independence, the size of board, and bank size all showed negative impacts on stability per the findings generated from the computation done.

5.3 Conclusion

The findings made shows that for an audit committee to be able to effectively carry out its duties in ensuring the stability of a bank, it is relevant that some factors be put into consideration. The independence of the audit is undoubtedly relevant but from this study, it has a negative relationship with bank stability, likewise the size of the Bank's board. However, the size of the audit committee as well as its composition of gender is seen to have positively been impactful on bank stability.

The study therefore concludes that although the independence of the audit committee is relevant for a good auditing job, it does not necessarily ensure the stability of a bank. Rather, the audit committee's size and its gender composition do as these two factors seem to bring on board diverse individuals with a variety of skills, knowledge, and abilities necessary for the job at hand so as to ensure the stability of the bank.

5.4 Recommendations

The findings made postulates that the independence, size, and gender composition of an audit committee all have significant relationships with banks to ensure its stability and as such the best of measures should be put in place regarding these aspects of the audit committee if their works are expected to contribute to the stability of the banking industry. The study therefore recommends that:

1. Banks should take keen interest in the size of the audit committee as it is believed that numbers may come along with some significance like allowing for diverse skills, knowledge, and information among others.

2. The study also recommends that the audit committee of banks should also take note of gender composition as it is seen to have a positive relationship with stability. Both males and females have some unique qualities that they bring on board when there is work to do and if the bank is interested in tapping from both sides regarding the work to be done which in this case is auditing, there is the need for a consideration of the committees gender composition.
3. The banking sector should also not disregard the relevance of the audit committee's independence regardless of what the results in this study suggest. An audit committee's independence is very significant to the effectiveness of a bank's performance and since performance is necessary to ensure stability, the audit committee's independence should continue to be a factor to be considered in auditing within the banking sector.

5.5 Future Research

Future studies on the audit committee and banking industry could be directed at the role of the audit committee on some performance indicators of the banking industry as it is the performance of these banks that ensure their stability and not directly on stability which is very difficult to determine. This form of study can help give specification on the relevance of auditing to the banking industry.

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APPENDIX

Table 4.4 Descriptive Statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
ZSCORE	60	24.323	20.430	0.993	84.493
ACIND	71	4.127	0.827	3	5
ACSIZ	71	5.127	0.827	4	6
SIZ	71	9.465	5.959	2	23
GEND	71	0.120	0.105	0	0.3
BKS	80	5.964	0.511	4.419	6.904

Table 4.5 Correlation Matrix

	ZSCORE	ACIND	ACSIZ	SIZ	GEND	BKS
ZSCORE	1					
ACIND	-0.0665	1				
ACSIZ	0.2107	0.5403	1			
BSIZ	0.044	0.5821	0.7318	1		
GEND	-0.0922	0.7786	0.2968	0.5342	1	
BKS	-0.1276	0.5069	0.266	-0.004	0.3099	1

Table 4.6 Regression results: Robust Ordinary Least Square

Source	**SS**	**Df**	**MS**
Model	4260.0	5	852.0
Residual	13322.0	41	324.9
Total	17582.0	46	382.2

ZSCORE	**Coef.**	**Std. Err.**	**T**	**P>t**
ACIND	-8.069	6.434	-1.250	0.217
ACSIZ	9.013	5.338	1.690	0.099*
SIZ	-0.626	0.783	-0.800	0.429
GEND	71.991	41.163	1.750	0.088*
BKS	-19.483	8.765	-2.220	0.032**
CONS	131.545	50.876	2.590	0.013
Number of obs	47			
F(5, 41)	2.62			
Prob > F	0.038			
R-squared	0.242			
Adj R-squared	0.150			
Root MSE	18.026			

Table 4.5 Variance inflation factor

Variable	VIF	1/VIF
Siz	3.63	0.276
Acind	3.43	0.291
Gend	2.79	0.358
Acsiz	2.36	0.423
Bks	1.6	0.625
Mean VIF	2.76	