UNIVERSITY OF GHANA

INTERNATIONAL FINANCIAL REPORTING STANDARDS, REPORTING QUALITY AND AUDIT FEE OF FINANCIAL INSTITUTIONS IN GHANA

BY

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DECLARATION

I, AMISSAH EDMOND, do hereby declare that this thesis is the original work carried out by me, and that, to the best of my knowledge, it contains neither materials previously published by another person nor materials submitted in part or in whole for the award of any academic qualification in any institution of higher learning, with the exception of supporting literature that has been duly acknowledged and referenced in the text.

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CERTIFICATION

We hereby certify that this thesis was supervised in accordance with the procedures laid down by the University.

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DEDICATION

This work is dedicated to the LORD GOD Almighty for His grace to go through this research successfully.

It is also dedicated to my mother-Felicia Amissah and Mr Henry H. Ennison of UGBS for the unflinching support, God richly bless you.

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LIST OF ABREVIATIONS

CLERP…….. Corporate Law Economic Reform Program

GAAP…… Generally Accepted Accounting Principles

GDP ……...Gross Domestic Product

GNAS…… Ghana National Accounting Standards

GSS…….Ghana Statistical Service

IASB…….. International Accounting Standards Board

ICAEW……...Institute of Chartered Accountants, England & Wales

ICAG…….. Institute of Chartered Accountants, Ghana

IFAC…….. International Federation of Accountants

IFRS……International Financial Reporting Standards

NIC…….National Insurance Commission

SEC……. ...Security and Exchange Commission

SOX…….Sarbanes-Oxley Act 2002

ABSTRACT

This study examined the effect of International Financial Reporting Standard (IFRS) adoption on financial reporting quality (earnings management) and audit fees in the financial institutions in Ghana. It also explored the relation between the reporting quality and audit fees.

A panel regression model is used to determine the effect of the IFRS adoption on reporting quality as well as audit fees. The data used was drawn from the audited annual report of 23 universal banks and 28 insurance companies observed over the period 2003 to 2014.

The empirical result indicates that financial institutions exhibit less earnings management after IFRS adoption. It also finds that higher fees are paid after the transition to the new accounting standard. Furthermore, the study finds a statistically significant negative relationship between measures of reporting quality and level of audit fees. Overall, the study result indicates that the adoption and implementation of IFRS has brought about an improvement in the quality of financial reporting among financial institutions in Ghana. However, it implementation has been accompanied with high audit fees.

The results documented in this study add to the dearth of literature on IFRS adoption and earnings management among financial institutions from the perspective of an emerging market. The results of this study contribute additional evidence to the few literature on the impact of IFRS adoption on financial sector and more especially the insurance industry which has been ignored by most researchers. This is one of the few studies that directly examine the cost of implementing IFRS with a focus on audit fees. The study therefore contributes to the debate on IFRS adoption and financial reporting quality and its relation with audit fees.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

The proliferation of financial scandals over the years (e.g. Enron, 2001; WorldCom, 2002; Parmalat, 2003), etc.) has awakened the concerns of investors and the international community regarding the quality/credibility of information reported by firms (Cheung et al., 2011; Griffin, Lont, & Sun, 2009; Li, Pincus, & Rego, 2008; Morais & Curto, 2008; Penman, 2003) Again, the sharp growth of multinational firms, cross boarder investment and sharp increase in international financial markets over the recent years has equally necessitated the need for global harmonization of national accounting standards to ensure uniformity and standardization of reporting financial information across nations (Jacob & Madu, 2009; Martínez-ferrero, 2014; VSchadewitz & vieru, 2008).

Global harmonization of national accounting standards has therefore taken the centre stage of affairs over the past decade engaging the attention of both academia and practice (Prather-kinsey, 2006; Yaacob & Che-Ahmad, 2012). In an attempt to meet the growing demand for global integration of accounting standards that is of more quality, the International Accounting Standard Board (IASB) with its' predecessor International Accounting Standard Committee (IASC) was set up as a self-governing standard-setting body of the IFRS Foundation with a mission to develop "high quality" International Financial Reporting Standards (IFRS) that can provide the much desired high quality information around the world's financial markets. The main aim of IASB is to meet the growing demand for high quality information that can assist users to make informed decision including preparers of financial statements. The European Union (EU) embraced this new reporting framework in 2005, with the aim of improving the quality of financial reporting and comparability across nations (Paglietti, 2009; Soderstrom & Sun, 2008).

The IFRS has since been adopted voluntarily or mandatorily whether partially or wholly in several other countries following the EU endorsement. Statistics from (ifrs.org) shows that as at December, 2015 a total of 116 jurisdictions (83%) need IFRS for almost all their local public entities. Majority of the jurisdictions (130 out of 140) have pledged their unflinching support towards a single set of high quality global accounting standards. Currently, countries that have not adopted the IFRS include; Albania, Belize, Bermuda, Cayman Islands, Egypt, Macao, Paraguay, Suriname, Switzerland and Vietnam. In countries like Belize, Bermuda, Switzerland and Cayman Islands IFRS is often used by listed firms and financial institutions even though these countries have not officially and publicly announced their adoption of this new standards. Currently, only few jurisdictions are still using their national accounting standards. These countries include Bolivia, China, Egypt, Guinea-Bissau, Macao, Niger, United States, and Vietnam. The situation in Africa is not different as 79% of the jurisdictions already require the use of IFRS. Statistics also shows that $41 trillion combined GDP are from IFRS jurisdictions, representing more than half of the worldwide GDP. This suggest that the quality and efficiency of our global financial markets depend to a large extent on reliable and relevant timely financial information from IFRS-compliant base countries.

Larson and Street (2004) identified the technical difficulties in the application of specific standards (e.g. financial instruments) and tax system of most national accounting frameworks as the two main barriers to convergence. Other obstacles to convergence include lack of uniform interpretation, less developed domestic financial markets, inadequate guidance given to first-time adopters of IFRS, and lack of experience with respect to the treatment of particular transactions such as pensions (Jermakowicz & Gornik-Tomaszewski, 2006).

In the light of the above statistics on the rate of adoption, Ball (2006) concluded that indeed it is an extraordinary achievement in coming out with a set of 'high quality' comprehensive accounting standards leading to wide spread adoption around the globe. There are claims that

this is one of the greatest development in the history of the accounting profession and a great step to reaching global harmonisation of accounting standards. This has been attributed to the need for international recognition by these countries which is underpinned by institutional theory. Thus many countries have adopted or joined the IFRS foundation in order to be rewarded through increased legitimacy, resources and survival capabilities.

Then beyond the success story for wide spread adoption is the concern about the effect of this IFRS adoption on organizations/countries. There has been several claims concerning the benefits of IFRS adoption among adopters and proponents.

In the first place, standard setters claims that IFRS produce highly reliable, transparent and timely financial statement information, compared to the national standards they substituted in majority of the of the jurisdictions adopting them (Ball, 2006). Theoretically, one of the major advantage of a single set accounting standards is to enhance comparability for users of accounting information, and ideally enhance capital allocation (Ames, 2013). Uniform global accounting standards and standardized reporting format is capable of minimizing the cost associated with information processing by investors (Ball, 2006). Reducing international differences in accounting standards assists to some degree in removing barriers to cross-border acquisitions and divestitures, which in theory will reward investors with increased takeover premium. In general, IFRS offer increased comparability and hence reduced information costs and information risk to investors. Daske, Hail, Leuz and Verdi (2008) opine that IFRS adoption will lead to improved transparency and higher-quality financial reporting, effectively enhancing firm information environment. Proponent according to Christensen (2012) claims that the new accounting standards improves transparency over national accounting standards.

Extant literature offers several pieces of evidence consistent with the aforementioned argument by proponent. Barth, Landsman, and Lang, (2008) found that IAS/IFRS represent superior

accounting standards in comparison to domestic accounting standards in that IFRS compliant firms generally demonstrate less earnings management, more timely loss recognition, and more value relevance of accounting amounts than their counterpart organizations using non-U.S. accounting standards. According to Tyrrall et al. (2007) cited in Yaacob and Che-Ahmad (2012) IFRS enhances the perceived quality and status of financial reports, eliminate set up costs by national standards setters and increases the efficiency of domestic and global financial markets as a result of enhanced transparent and value relevant financial statements. A study by Ovute and Eyisi (2014) on the problems and prospect of IFRS adoption in Nigeria documented that adoption of international financial reporting standard attracts more interest of international investors in investing into IFRS compliant firms.

In the capital market particularly in the banking sector evidence exist that the banks charge relatively lower loan rates and apply conditions that are more favourable to IFRS adopters than to non-adopters (Kim, Tsui, & Yi, 2011). Again the study found that banks tend to give IFRS compliant firms huge loans with extended payment period. In the area of market liquidity and cost of borrowing, prior literature document evidence suggesting that the introduction of IFRS on average result in an enhanced market liquidity, reduction in firms' rate of return and an increase in equity valuations (Daske et al., 2008).

However, despite the numerous benefits associated with IFRS adoption it is not without implementation challenges. Adoption and implementation of IFRS may be associated with cost that is materially different from complying with domestic GAAP (Barth et al., 2009). These cost could be significant enough to deter compliance especially by firms with limited resources. Another major challenge to IFRS implementation has been the complex nature of particular standards (Larson & Street, 2004; Ovute & Eyisi, 2014). The complexity associated with the application of the new standard has attracted deep concerns from various stakeholders including preparers of financial statements, directors and auditors. Since the new standard

increases the disclosure, it demands greater amount of work and time to extensively verify and provide assurance concerning the audited financial statements (Hoogendoorn, 2006). Specific standards which tend to pose compliance challenges include Employee Benefits, Share-based Payments and Income Tax.

In Ghana, careful review of the annual auditor general's reports indicates that the major implementation challenge of the IFRS is the complexities associated with some selected standards. The audit reports identified IAS 19; Employee Benefits as the key standard not strictly complied with. The reports further identified standards requiring Fair Value basis of measurement and those relating to Financial Instruments, Share-based Payments and Income Tax as major standards posing greater compliance difficulties among firms in Ghana.

The claim by proponent that uniform adoption of IFRS would lead to reporting quality has not been endorsed by some section of researchers who are of the view that reporting quality is still bound to differ among countries that have adopted the new standards.

According to Ball (2006) the quality of financial reporting among countries will continue to vary regardless of the fact that uniform accounting standards have been adopted. Ball (2006) attributes this variations in the quality of financial reporting to differences in the level of implementation and other deep-seated political and economic factors that tend to influence reporting quality.

This view is further supported by Günther¨Gebhardt and Novotny-Farkas (2011) based on the argument that institutions play a very crucial role in shaping financial reporting outcomes. Palea (2013) posits that a countries' legal and political systems as well as financial reporting incentives tend to shape the quality of accounting of that country. In agreement with this argument, Van Tendeloo & Vanstraelen (2005) posit that financial reporting quality is a function of the quality of accounting standards and their implementation. The application of

IAS reflects combined effects of features of the financial reporting system, including standards, their interpretation, enforcement, and litigation (Barth, Landsman, & Lang, 2008b). Indeed, the absence of a global regulator to ensure uniform adoption and enforcement reduces the benefits of common accounting standards (Palea, 2013). The adoption of IFRS will either have positive or negative impact on the reporting quality of a country depending on the differences in the quality between IFRS and the already existing national accounting standards (GAAP) and the effectiveness of enforcement mechanisms (Ahmed, Neel & Wang, 2013). According to Ahmed et al. (2013) accounting standard is said to be of higher quality if the standard is capable of either limiting managerial discretion over accounting choices or inherently disallows smoothing or overstatement of earnings. This is because accounting quality can be affected largely by opportunistic discretion exercised by managers and other errors in determining accruals (Barth et al., 2008b).

Extant research has been conducted especially in Europe on the impact of IFRS adoption on the reporting quality in various countries (e. g. (Ahmed et al. , 2013; Bartov, 2002; Cameran & Perotti, 2014; Lin, Lin, & Lee, 2012; Paglietti, 2009; Soderstrom & Sun, 2008). While some researchers document a positive effect of the IFRS adoption on accounting quality (e.g. Ahmed & Texas, 2013; Lin et al., 2012; Paglietti, 2009; Soderstrom & Sun, 2008) other researchers report negative impact on reporting quality (e.g. (Cameran & Perotti, 2014; Jeanjean & Stolowy, 2008; Morais & Curto, 2008; Hung & Subramanyam, 2007). Jarva and Lantto (2012) also found that the IFRS adoption had no influence on earnings quality.

Then again, there has been a concern about the effect of IFRS on audit fees. According to Jermakowicz and Gornik-Tomaszewski (2006) earlier adopters of the new standards have raised concerns over the huge preparation and certification cost. De George, Ferguson, and Spear (2013) posit that increases in the cost of audit have been ranked as largest IFRS-related mandatory implementation cost.

The adoption of (IAS/IFRS) has two inverse impact on audit fees (Cameran & Perotti, 2014; Kim, Liu, & Zheng, 2012), from one perspective greater effort is demanded from auditors which is likely to be reflected by higher charges; however, if IFRS enhances the quality of financial reporting, expected expense could minimise due to lower inherent risk associated with the audit. The greater effort required from auditors may be an extra effort to be abreast with the new standards in order to determine their level of compliance. Kim et al. (2012) posit that audit fee increases significantly due to increase in audit complexity brought about by IFRS adoption. The study however discovered that IFRS-related audit fee premium is lower in countries with strong legal Regimes. On the contrary, other researchers (Cameran & Perotti, 2014; Risheh, 2014) found that higher fees are paid after the transition to IFRS.

Accounting researchers have also established that the quality of financial reporting is correlated with audit fees (Gul, Chen, & Tsui, 2003; Larcker & Richardson, 2004). Dechow, Ge and Schrand, (2010) define quality broadly to be decision usefulness—in any decision by any decision maker. Financial reporting quality is conceptually defined as the accuracy with which financial reporting convey information about the firm's operations to users. Ball & Shivakumar (2005) describe reporting quality in abstract terms as the relevance of financial statements to shareholders and all other parties contracting with the firm. Ames (2013) described earnings quality as one of the major components of reporting quality based on the notion of accounting quality suggested by Penman (2002). Penman (2002) was of the view that accounting quality should always encapsulate shareholders' interests and the usefulness of accounting information in assisting them.

The instrument for measuring quality varies across literature. Mostly researchers have measured quality along the lines of relevance and faithful representation which are the primary qualitative characteristics of accounting information according to IASB. According to IASB the four secondary elements of quality are: understandability, comparability, verifiability and

timeliness. Most researchers have used various proxies for measuring ‘‘earnings quality’’ including persistence, accruals, smoothness, timeliness, loss avoidance, investor responsiveness, and other external indicators of quality (Dechow et al., 2010). Traditionally, earnings quality has been measured in the literature by the investigation of three dimensions: earnings management, timely loss recognition, and value relevance (Dechow et al. 2010).

1.2 Statement of the problem

It is argued that the level of impact of the new standard on the various sectors is likely to be enormous. The obvious question that arises is what has been the effect of this new standard on the individual sectors of the economy of various countries that adopted it including Ghana?

Extant review of literature also shows that vast number of the current studies seem to focus more on the effect of IAS/IFRS adoption in European and other advanced countries (e.g. Callao & Jarne, 2010; Chen, 2014; Daske et al., 2008; Iatridis & Rouvolis, 2010) but very little in developing countries more especially Africa (Adibah Wan Ismail, Anuar Kamarudin, van Zijl, & Dunstan, 2013; Ames, 2013; Bova & Pereira, 2012). Aside from Egypt, the literature is largely silent on the impact of IFRS adoption by countries on the African continent (Ames, 2013).

Taking into cognisance the notion that the mere adoption of higher-quality accounting standards does not translate into higher-quality financial reporting (Ball, 2006) imply that the results obtained from these empirical research from the advanced countries cannot be generalised as a fair representation of the situation in developing countries especially in Africa due to significant differences in institutional and organizational frameworks that operate under these continents. It is widely acknowledged that these two classes of countries differ significantly in terms of investor protection laws in place and the level of enforcement of these laws (Bova & Pereira, 2012). Moreover, developing countries have weaker and less mature

capital markets (Gibson, 2003). More so, the accounting standards used in these developed countries differ from those that were used in the less developed countries, hence the difference in impact after adopting the same reporting standards.

A careful review of extant literature reveals that most of these research that sought to determine the impact of this new standard on reporting quality excluded the financial institutions (e. g. (Callao & Jarne, 2010; van Tendeloo & Vanstraelen, 2005; Vander Bauwhede, Willekens, Bauwhede, & Willekens, 2004) on the grounds that financial institutions are "different" i.e. have different practices and structures. Thus, because of their sector-specific accounting procedures and their special supervisory treatment (Manganaris, Spathis, & Dasilas, 2015). The impact of IFRS adoption on reporting quality is widely acknowledged, however there is still dearth of literature on very crucial areas. The lack of research focused specifically on the banking sector in developing countries and the findings that reveal the impact of the IFRS adoption on the financial institutions suggest the need for further research focusing on the financial institutions in developing countries.

Examination of prior literature on the effect of IFRS shows that the focus have been on reporting quality but little on related cost of adoption. Risheh (2014) found a similar gap in literature after extant review of empirical literature on IFRS adoption. Indeed, accounting research that directly examines the relationship between financial institutions and their auditors are very few regardless of the economic importance of the sector (Fields, Fraser, & Wilkins, 2004). Currently, little is known on the impact of the new standard on audit fees more especially in the financial institutions. (Cameran & Perotti, 2014; Fields, Fraser, & Wilkins, 2004; Kanagaretnam, Krishnan, & Lobo, 2008; Krishnan & Yu, 2011). This research is therefore focused on the financial institutions in Ghana.

The Financial sector was one of the first sectors in Ghana to fully implement the IFRS effective 2007 after it was officially adopted in 2007. This was considered necessary considering the crucial role played by the financial institutions to the economic development of Ghana. According to Haiss and Vukšić (2005) (quoted in Petkovski & Kjosevski, 2014) the growth of the financial sector induces economic development and that there is a strong positive correlation between each of the financial development indicators and economic growth. According to the GSS report (2014), Financial & insurance activities recorded the second highest growth rates of 23.2 percent. The banking sector also grew by 32% despite real GDP growth of 7.1%. This was far above 5.1% and 3.0% growth rate recorded in sub-Saharan African and world economy respectively (Pwc, 2014).

Contribution of the financial sector to GDP is about 6.5% (GH₵5954 Million) of GDP making it the third largest industry in the service sector which remains the largest sector, contributing about half, 49.5% (GH₵44,988 Million), of GDP in 2013. Again, the banking industry recorded 27% growth in deposit and 33% growth in total assets in 2013 despite the unfavourable macro - economic environment (Pwc, 2014). Again, the study is focused on financial institutions because is the most highly regulated sector in the Ghanaian economy and among the most sophisticated users of financial statements (Bharath, Sunder, & Sunder, 2008). This study intends to address the research gaps raised above.

The main purpose of this study is to determine the effect of International Financial Reporting Standard (IFRS) on reporting quality and audit fees in the financial institutions in Ghana. The outcome of this study will provide evidence on the impact of the IFRS adoption on one of the major sectors of the Ghanaian economy and help in evaluating the intended purpose of enhancing reporting quality. The motivation of this study stem from the widely perceived view that the adoption of the alleged higher quality accounting standards will translate into higher reporting quality. In general it is expected that the implementation of the IFRS will improve

the quality of reporting. Early adopters of the IFRS have also raised concerns about the huge cost associated with its implementation with particular emphasis on the cost of financial statement audit (Cameran & Perotti, 2014; De George et al., 2013; Kim et al., 2012).

The study consider agency theory more attractive and applicable to this study in that it explains the owners/shareholders as the principals and directors, external auditors as agents functioning as a monitors of mechanisms to minimize agency cost. From the perspective of agency theory the adoption of IFRS is considered as an institutional measure that seeks to reduce the opportunistic behaviours of managers (agents) and align the interest of shareholders with that of the managers through transparent reporting. Again, per the agency theory the audit fee is considered as a major monitoring cost associated with agency relationship arising from the information asymmetric problem. The study therefore seeks to examine how the introduction of IFRS as a mechanism and the involvement of auditors as monitoring agents has contributed to the achievement of the overarching objective of improving the economic welfare of shareholders through quality reporting.

The main objective of this study is therefore to determine the effect of International Financial Reporting Standard (IFRS) on reporting quality and audit cost in the financial institutions in Ghana.

1.3 Research Objectives

The main objectives of the study are:

1. To determine the effect of IFRS adoption on reporting quality in the financial institutions
2. Determine the effect of IFRS on the audit fees in the financial institutions in Ghana
3. To examine the relationship between reporting quality and audit fees

1.4 Significance of the study

The significance of this study can be viewed along the lines of research, practice and policy making:

With respect to research, it is expected that the results will be of great interest to academics involved in monitoring and researching on the impact and progress with international accounting harmonization process. The outcome of this study provide additional evidence to the few literature on the impact of IFRS adoption on financial sector and more especially the insurance industry which has been ignored by most researchers. This is one of the few studies that directly examine the cost side of IFRS adoption with a focus on audit fees and reporting quality. As most of the existing studies on the effect of IFRS have focus on data from the advanced countries mostly Europe. This study fills a gap in the existing literature by studying the effect of adoption of IFRS on financial sector in an emerging economy where regulation enforcement is considered relatively low and may serve as a reference document for future research. In the first place, evidence on this topic will be very relevant to the IASB in that it can assist the board assess whether its stated objective of improving accounting quality is also being achieved in the continent of Africa (Barth, Landsman, & Lang, 2008).

With regards to policy, this research may also be of great importance to international regulators and institutions involved in the international harmonization process since the results provide evidence on the impact on the adoption on various countries in Africa. Further, this study will be of much interest to Standard setters, regulators, and policy-makers since all have a vital interest in the effect and economic ramifications associated with financial reporting on the economy (Palea, 2013). These results should be of interest to the regulatory and supervisory authorities (Institute of Chartered Accountants Ghana (ICAG), Auditors, National Insurance Commission (NIC), and Securities and Exchange Commission) since the study provides insight into the outcome of implementing IFRS.

Institute of Chartered Accountants Ghana (ICAG) can use this research to regulate the practice of charging a reasonable level of audit fees which commensurate with the provision of professional assurance services of an acceptable and recognized standard in Ghana.

In terms of practice the outcome of the study can be used by auditors as a reference document in pricing their services since the study highlight major determinants of audit fees and how the adoption of the new standards affect the pricing of their services. Companies' management can also use the results of the study as a basis to predict the amount of audit fees that they will pay. This study could be useful to audit firms as they assess their litigation exposure in this high-risk sector. This study can also be a guide to future adopters as it provides insight into the likely impact on reporting quality and related cost of adoption.

Finally, analysts, investors, and other users may also find it useful to understand the effects of IFRS adoption on financial institutions to potentially reassess how they use accounting numbers.

1.5 Condensed Methodology

In order to achieve the research purpose of assessing the impact of the IFRS adoption on the reporting quality and cost of financial statement audit of financial institutions in Ghana the study design adopted quantitative approach for this study. A panel data is generated through secondary data of annual financial statements of banks and insurance companies that are IFRS compliant in Ghana.

1.6 Scope and Limitations of the Study

The research population is made up of all the financial institutions in Ghana. The financial institutions in Ghana comprise of the banks and insurance industry. Currently, the Ghana banking industry is fairly saturated comprising 27 universal banks, 137 rural and community banks, and 58 non-banking financial institutions including finance houses, savings and loans,

leasing and mortgage firms (Pwc, 2014). The insurance industry is made of nineteen (19) life insurance and twenty-six (26) non-life insurance firms (NIC Annual Report, 2014). The study focused on financial institutions operating in Ghana which have adopted the IFRS between 2007 and 2009. Therefore study covers all the 27 universal commercial banks and forty-five (45) insurance companies in Ghana since they have all adopted the IFRS.

The study relied solely on secondary data extracted manually from the annual reports of sample banks and insurance companies. The limitations associated with this source of data is that the researcher has no control over the quality of the data, missing variables and sometimes the vagueness of the data.

In order to minimize the likely effect of these challenges, data extraction process was carried out with all due diligence and cautiousness. Besides, current year's figures were used to avert the ambiguity problems that comes with restatement of financial statements. To further authenticate these documents, a soft copy formats of extracted variables were obtained officially from Bank of Ghana and compared with those obtained online. Moreover, the regulatory framework governing the preparation of company annual reports helps ensure that the annual report is a reliable and attested public document (Ghazali, 2010).

This study considered the impact of IFRS adoption for universal banks and insurance companies in Ghana which forms small proportion of the financial sector. The study excluded non-IFRS compliant firms and Small and Medium-Sized Entities (SME's) which forms larger part of the financial sector.

Traditionally, reporting quality has been measured using earnings management, timely loss recognition and value relevance, however, this study used only earnings management as a proxy for reporting quality. This was due to the fact that most of the selected firms were unlisted making it impossible to use other measures of reporting quality to corroborate the findings.

1.7 Chapter Disposition

The research study is organized into five (5) chapters. Chapter one captures the background of the study, problem statement, objectives of the study, research questions, significance of the study, scope and limitations of the study, organization of the study. In chapter two, the theoretical framework underpinning the study and existing literature on IFRS adoption and its impact on reporting quality and audit cost is be reviewed. Chapter three is focused on the methodology employed in addressing the objectives of the study. These methods consist of research design and execution strategy, population of the study, sample size and sampling technique, source of data and data collection instrument and ethical consideration. It also captures variables estimation and measurement and empirical estimation models. Chapter four presents analysis of the data gathered and a discussion of the results and findings. Chapter five summarises the findings analysed in chapter four from the data gathered and presents the researchers' recommendations and conclusion to the study.

CHAPTER TWO

LITERATURE REVIEW

1.1 Introduction

This chapter is made up of two main sections. Section one considers the theoretical framework underpinning the study. This section examine how the introduction of IFRS as a mechanism and the involvement of auditors as monitoring agents has contributed to the achievement of the overarching objective of improving the economic welfare of shareholders through quality reporting from the perspective of agency theory. The second section reviews existing literature relevant to the study and establishes the basis for hypothesis development.

2.1 Theoretical Framework

2.1.1 Agency Theory

Over the last two decades, agency theory has become one of the very crucial theoretical paradigms in accounting research (Lambert, 2001). Eisenhardt (1989) conducted a critical assessment and review of this theory and concluded that agency theory provides unique insight into information systems, outcome uncertainty, incentives, and risk. This theory clearly explains how important topics such as conflicts of interest, incentive problems, mechanisms for controlling incentive problems and asymmetric information affect principal-agent relationship particularly between shareholders and management in corporate setting.

Agency theory is considered attractive theory and applicable to this study in that it explains the introduction of IFRS as mechanism and external auditors functioning as a monitors of mechanism to reduce agency problems.

Jensen and Meckling (1976) explain agency relationship as agreement where one or more persons (the principal(s)) employ another person (the agent) to undertake some activity in their stead which involves delegating some decision making authority to the agent. An agency

relationship basically arises when there is separation of ownership from control which is focused on the relationships between principals and agents as in shareholders and corporate managers in the context of the firm. Agency relationship can be found in relationships such as employer-employee, lawyer-client, buyer-supplier, and other agency relationships (Harris & Raviv, 1978). However, in this context our focus is on owners (shareholders) and directors (management) relationships.

The roles of the principal in the agency relationship include the supply of capital, bearing risk and construction of incentives whiles the role of the agent is to take decisions which include operating decisions, financing decisions or investment decisions on behalf of the principal.

In the context of agency theory, the organization is considered as a legal entity that serves as a nexus for a complex set of explicit and implicit contracts among agents with diverse and conflicting objectives (Jensen & Meckling, 1976). Generally, the scope of agency theory is relationships that reflect the basic agency structure of a principal and an agent who are engaged in cooperative behaviour, but have divergent goals and attitudes toward risk (Eisenhardt, 1989). The essence of the principal-agent theory is on determining the most efficient terms of agreement, between the two parties under varying levels of outcome of uncertainty, risk aversion, information, etc.

Delegating decision making authority can result in loss of efficiency and, consequently, raise agency costs. The import of agency theory therefore is to investigate the optimal contractual arrangements that can be put in place to minimize agency costs. This is because in the context of agency theory, an effective and efficient firm is one that minimizes its agency cost (Deegan, 2013).

The basic assumption underpinning agency theory is that all individual (like the principal and indeed all individuals) behavior is motivated by self-interest and that individuals will act in an opportunistic manner to increase their wealth.

2.1.2 The Agency Problem

According to Jensen and Meckling (1976) agency problem evolve when the principal and the agent have differing goals and division of labour. Thus, one major problem associated with principal-agent relationship is the problem of conflict of interest in which the goals of the cooperating parties completely differ. This problem occurs as a result of separation of ownership from control which creates knowledge or access to information gap between shareholders or investors and managers of companies. Agents, driven by self-interest tend to take advantage of the information asymmetry to act in an opportunistic manner to the extent of amassing wealth at the expense of their owners. Generally, agents conflict of interest may stem from their desire to divert resources for their private use, effort aversion or different time horizons (Lambert, 2001).

Another major problem that characterise agency relationships is the problem of moral hazard. Moral hazard is described as a situation where the agent do not enter the contract in good faith and as a result do not expend the required effort. This problem may also cause agent to take unusual risk because the ultimate risk is born by the principal. The principal can either motivate agents or put in place mechanisms that can provide the necessary information that can be used to monitor the agent's behaviour. Alternatively, the principal can make contractual arrangements with agent based on the outcome of the agent's behaviour (Eisenhardt, 1989). Presumably, this situations tend to align the interest of principals with the preferences of the agents and also help reduce the problem of adverse selection.

2.1.3 Control Mechanisms

Owners/shareholders' lack of direct control over the day-to-day running of their organization, usually create an opportunity for agents (managers) to access private information for their personal advantage to the detriment of the principals. This situations require that corporate control mechanisms are instituted to monitor the activities of the agents in order to guarantee that actions that benefits the individual also benefit the organization.

"Corporate control mechanisms are the means by which managers are disciplined to act in the investors' interest" (Bushman & Smith, 2001). Corporate control mechanisms according to Bushman and Smith (2001) embrace both internal mechanisms, such as managerial incentive packages, monitoring of directors and the internal labour market. External control mechanisms also include debt holder monitoring, the market for corporate control, and competition in the product market, the external managerial labour market and securities laws that protect outside investors against expropriation by corporate insiders. However, this study is focus on internal mechanisms and more particularly on monitoring of mechanisms.

According to Jensen & Meckling (1976) the term monitoring goes beyond just checking or observing the behaviour of the agent. It encompasses conscious attempt by the principal to control the behaviour of the agent through budget controls, compensation policies, operating rules etc. The principal can reduce the problem of conflict of interest by establishing appropriate compensation packages for the agent and by incurring monitoring costs intended to constrain the aberrant behaviour, of the agent. In most agency relationships the principal and the agent will incur positive monitoring and bonding costs.

The cost involve in monitoring (often involving accounting and auditing) the actions of the agents; agency cost is usually non-trivial. Jensen & Meckling (1976) define agency costs as

"the sum of the monitoring expenditures by the principal, the bonding expenditures by the agent and the residual loss".

Over the years, several corporate mechanisms have been adopted to tackle the problem of information asymmetry and to minimize the conflict of interest associated with agency relationships. Typically, managers are required by statute to report faithfully to shareholders/investors including the performance, position and related report indicating the true state of affairs of the resources entrusted to them at certain intervals. However, since incentive plans are mostly tied to outcome of agents' behaviour/decisions, they may be moral hazard problems in the agents reporting truthfully. Evidence exist that accounting rules/standard adopted is capable of limiting a manager's ability to manipulate reported earnings (Leuz, Nanda, & Wysocki, 2003).

Research has established that managers tend to manipulate or withhold information to achieve their own selfish interest. Watts and Zimmerman (1990) report that the choice of accounting standards is influenced largely by self-interest of management. They explain that all things being equal, managers settle for accounting methods that result in high profit when incentive packages are tied to current reported income.

It is believed that the high level of disclosures and limited accounting discretions offered by IFRS (Ashbaugh, 1999 ; Leuz & Verrecchia, 2000) tend to reduce information asymmetry. Hence, IFRS is therefore expected to improve financial reporting quality and thus constrain their tendencies to consume perquisite provided IFRS can be properly enforced. The endorsement and implementation of IFRS in this study is therefore considered as a corporate control mechanism, specifically, monitoring mechanism intended to limit the opportunistic actions of managers and reduce the information asymmetry problems inherent in agency relationships through quality reporting.

This study therefore employs agency theory to examine how the adoption of IFRS, which is deemed to bring credibility, accountability and efficiency to financial markets around the globe may have contributed to improving or worsening opportunistic actions of agents and the information asymmetric problems associated with agency relationships.

The study therefore seeks to examine the role of IFRS adoption in reducing the agency cost (including the conflict of interest that exist between owners and managers) of organizations in Ghana through transparent reporting.

Another major institutional monitoring tool employed by organizations to monitor the opportunistic value- reducing behaviour of managers is auditing. The appointment of external auditors to conduct independent audit is established in literature as yet another monitoring mechanism.

Due to the problem of information asymmetry, auditors' central role is aimed at enhancing the confidence of the intended users of companies' financial reports about the financial statements assertions by gathering reasonable assurance that the financial statements are devoid of material misstatements whether due to fraud or error (IFAC, 2009). This exercise though statutory has become imperative taking into consideration the self-interest tendencies of managers to overstate profits to increase their absolute share in order to amass wealth at the expense of their owners.

Again, evidence exist in literature (e.g. Core, Hail, & Verdi, 2015) that when monitoring quality is low (e.g. as a consequence of low disclosure quality), the potential for misappropriation by management is high. Within agency theory, the role played by auditors is considered as a monitoring mechanism employed by firms to address the problem of information asymmetry and to align the interest of managers with that of the owners of the firm. Contracting of external auditors to monitor the activities of managers through inspection

of records and accounts usually comes with a cost. Evidence demonstrates that fees paid to auditors as wages for undertaking an audit is one of the key components of agency cost.

2.2 Empirical Review

2.2.1 Financial Reporting Quality

The import of financial reporting is to provide faithful and relevant information to all users for informed economic decisions.

"Quality" in relation to financial reporting is a concept that is frequently used, especially in recent years, nevertheless, it has not received much needed attention in both professional and academic discourse. The notion of "quality" in the context of financial reporting has generated a lot of debate and has often been described as ambiguous (Cheung, Evans, & Wright, 2010). The debate on quality has been fuelled mainly by the continuing accounting scandals around the globe**.** Several terms and descriptions have been associated with the concept over the years. For example the term **"true and fair"** was popularly used to imply observance of the provisions in the GAAP, and reliance on professional judgement until recently changed to "quality" (Cheung et al., 2010)**.**

"Quality was originally thought to mean reliable information that reflects actual transactions and is supported by documentation" (Cheung et al., 2010). Most experts in the field of Accounting are of the view that "Quality" depends on "for whom the information is prepared" and "for what purpose". They believe that financial reporting is of "high quality" if it assist users to make sound economic decisions and if it meets the needs of the users

Notwithstanding the ongoing debate on the notion of quality and the lack of an official clear cut defination by IASB, several attempts have been made to define the concept. For example Dechow et al. (2010) define quality broadly to be "decision usefulness—in any decision by any

decision maker". Ball and Shivakumar (2005) define reporting quality in abstract terms as "the usefulness of financial statements to investors, creditors, managers and all other parties contracting with the firm".

Conceptually, Biddle, Hilary and Verdi (2009) define Financial reporting quality as "the precision with which financial reporting conveys information about the firm's operations, in particular its expected cash flows, in order to inform equity investors". Biddle et al. (2009) definition of reporting quality is based on FASB objective of financial reporting which is to inform both present and potential investors in making sound investment decisions and assessing the amounts, timing, and uncertainty of firm prospective cash flow. Penman (2002) posits that discussion of accounting quality should always encompass shareholders' interests and the usefulness of accounting information in assisting them. Consistent with this perspective Morais and Curto (2008), assert that accounting information should not only further shareholders' interest but also uphold the interest of the general public.

Close examination of the above definitions of the concept of reporting quality reveals that all the definitions are in one way or the other consistent with one or more of the main characteristics of quality financial reporting under IFRS. According to IASB the primary qualitative characteristics of financial information are "relevance" and "faithful representation". Thus accounting information is relevant if it has both predictive value and confirmatory (feedback) value. Again, accounting information is said to represent faithfully the underlying transactions if it is complete, free from error and neutral.

These primary characteristics are supported by four other secondary qualities, viz. comparability, timeliness, understandablility and verifiability. An empirical review of literature on financial reporting quality by Cheung et al. (2010) reveals that these elements have indeed

endured the test of time, although in different forms, in the quality debate before they were cautiously agreed on.

2.2.2 Measures of Financial Reporting Quality

Basically, financial statements are the means through which management display accountability of management of resources entrusted to them. It reveals the results of the control of management. Management mostly report their performance to shareholders/investors in the form of earnings through the financial statements.

In general, accounting income/earnings is an instrument for evaluating financial reporting (Ball & Shivakumar, 2005). Accounting earnings play a very crucial role especially in pricing securities (Defond & Park, 2001). Therefore the quality of the financial report would basically be based on the quality of the earnings reported to shareholders and other users. But then the quality of a firm's earnings is a product of the organization's financial performance and the accounting framework that measures it (Dechow et al., 2010). Penman (2002) describe earnings quality as an important characteristic of financial reporting in that investors buy future earnings. In agreement with Penman (2002), Ames (2013) describes earnings quality as one of the major components of reporting quality based on the notion of accounting quality suggested by Penman (2002).

Accounting literature is replete with definitions of earnings quality. The term "earnings quality" is also ambiguous and has been subjected to several interpretations. Dechow et al. (2010) attribute the lack of single conclusion on the definition of earnings quality to "quality" because "quality" depends on the decision needs of the user. The study however emphasised that earnings quality depends on the firm's basic performance. In broad terms, "Higher quality earnings provide more information about the features of a firm's financial performance that are

relevant to a specific decision made by a specific decision maker." The study added that "quality" of earnings is a feature of the organization's basic performance.

Cohen (2003) describes "earnings quality" as how well the current earnings is able to predict into the company's future earnings or the degree to which reported earnings faithfully reflect the economic ramifications of the underlying transactions and events. Thus, high-quality reported earnings represent earnings that are strongly correlated with future operating cash flows. In agreement with this view, Dechow and Dichev (2002) also define earnings quality in terms of the association between accruals and cash flows. Chan et al. (2004) (quoted in Morais & Curto, 2008) interpret earnings quality as the degree to which the reported earnings represent the basic operating transactions of the firm. According to Yee (2006) earnings quality refers to the speed and accuracy with which current earnings disclose fundamental earnings.

2.2.3 Measures of earnings quality.

The instrument for measuring quality varies across literature. Mostly researchers have measured quality along the lines of primary qualitative characteristics (relevance and faithful representation) as well as the secondary characteristics (understandability, comparability, verifiability and timeliness) of accounting information. Most researchers have used various proxies such as persistence, accruals, smoothness, timeliness, loss avoidance, investor responsiveness, and other external indicators of quality for measuring ''earnings quality'' (Dechow et al., 2010).

Review of prior literature by (Barth et al., 2008a; Morais & Curto, 2008) reveals earnings management, timely loss recognition, and value relevance as the three primary dimensions under which earnings quality has been measured. Financial reporting quality shall be taken as earnings management in the context of this study sharing in the view of (Barth et al., 2008b)

that the level of accounting quality can be influenced by managers' opportunistic decisions and actual mistakes in determining accruals.

A method of determining the quality of reported earnings is to determine the degree to which earnings are managed, with the motive of 'either misleading some stakeholders regarding the fundamental performance of the firm or to influence contractual outcomes which is contingent on the current earnings (Healy & Wahlen, 1999).

2.2.4 Earnings Management

"Earnings management is the intentional, deliberate, misstatement or omission of material facts or accounting data, which is misleading and when considered with all the information made available would cause the reader to change or alter his/her judgement or decision" (National Association of Certified Fraud Examiners, 1993, p.12) (quoted in Dechow & Skinner, 2000).

Anecdotal evidence and several recent studies provide sufficient evidence to suggest that managers have a strong incentive to maintain a consistent pattern of earnings increases over a period. Existing literature documents that the motivation for managers to consistently report increases in earnings stem from the fact that firms that maintain a consistent and established pattern of earnings growth, command a higher price-to-earnings increases multiples with even a higher premium when the pattern is sustained for a longer period (Barth et al., 1995) (cited in Burgstahler & Dichev, 1997). The study again, found that these premium is completely lost or dramatically reduced when the established pattern is interrupted. DeAngelo et al. (1996) in support of this argument postulate that firms that experience an interrupted pattern of earnings increases all things being equal, will experience an average of 14% decline in stock return in the year the pattern is broken. These and other factors serve as a strong incentive for managers to manage earnings to avoid the reporting of losses or earnings decreases. It is conjectured that the most likely area to find earnings management is in the area of loss-avoidance or just meeting

or beating prior year's results. Burgstahler and Dichev (1997) therefore suggested that an alternative to examine the extent of earnings management is to determine the frequency of small positive earnings.

This study therefore, employ earnings management (SPOS) as a proxy to measure the reporting quality of financial institutions in Ghana. The study employ two traditional proxies of earnings management, managing earnings to avoid losses and managing earnings to just meet-or-beat the prior year's earnings or earnings management to avoid earnings decreases. These models are expected to capture the tendency of managers to exercise their discretion to manage reported earnings. Specifically, the study measure earnings management behaviour of managers through benchmark beating models.

The presence of earnings management is assumed to deplete the quality of the earnings (Dechow et al., 2010). For the purpose of this study an unmanaged earnings is considered as a proxy for high quality earnings. However, evidence of earnings management is taken as an indication of low earnings quality. Several measures have been adopted to determine the level earnings management (Barth et al., 2008a; Morais & Curto, 2008). Given that the IFRS is intended to improve quality in reporting, it is predicted that earnings management will reduce during the post-IFRS era among adopters.

2.2.5 Regulatory Changes/ IFRS and Effect on Reporting Quality

Existing literature on major regulatory changes in accounting indicates that such changes mostly result in significant impact on the quality of financial information reported to users. Notable among these accounting-related statutory amendments is the Sarbanes-Oxley Act (SOX) in the United States. By far, the Sarbanes-Oxley Act (SOX) of 2002 has been described as the most significant and most far-reaching amendment of United States business practices influencing corporate financial reporting enacted in the United States since the 1930s. The main

objective is to enhance the transparency and credibility of financial information that is presented to shareholders (Li et al., 2008).

Li et al. (2008) examine the extent to which firms manage their earnings in relation to stock prices following the legislative events surrounding SOX. Their major objective is to investigate whether the impact of SOX event on stock price is a clear indication of firms' earnings management and thus earnings quality, since SOX's main objective is to enhance financial reporting quality. The outcome of the study suggests a strong positive correlation between stock returns under SOX event and the level of earnings management. This result is consistent with shareholders expectation that SOX is capable of restricting firm's earnings management practices to improve reliability of financial information.

Another biggest event aside SOX, 2002 in US in the history of accounting practice and the most successful financial accounting framework in the world has been the adoption of IAS/IFRS by the European Union and the rest of the world (Lai & Taylor, 2013; Subramanyam, 2007).

There has been preponderance of research to consider the implications of this eventful reforms on the quality of financial reporting to investors. Existing literature provides evidence that the wide-spread adoption of this new standards has strong impact on the quality of financial reporting. A number of these prior researchers compared the quality of this new standards with that of the US and the German Generally Accepted Accounting Principles (GAAP) with conflicting results.

Liu et al. (2014) investigate whether the US rules-based GAAP and the more principles-based (IAS/IFRS) present different avenues for earnings management (EM) using data from the Frankfurt Stock Exchange of Germany for the fiscal years 1999-2004. The results of the study indicate that earnings management is significantly higher under research and development

investment for firms reporting under IAS/IFRS but found no significant difference in earnings management through accruals between US GAAP and IAS/IFRS firms.

Similarly, Van Tendeloo & Vanstraelen (2005) examine whether German companies that are IFRS compliant engage less significantly in earnings management relative to German GAAP. The study show that the level of reporting quality (earnings management) for both IFRS compliant firms and firms reporting under German GAAP are virtually the same. Consistent with this results, Bartov (2002) found no significant difference in reporting quality (measured through value relevance) between U.S. GAAP and IAS after controlling for self-selection. The study further found that reporting quality (value relevance) of both US. GAAP- and IAS-based earnings is better than that of German GAAP- based earnings.

Still focusing on German GAAP, Hung and Subramanyam (2007) consistent with (Bartov, 2002; Van Tendeloo & Vanstraelen, 2005) obtain no convincing proof indicating that IAS enhances the reporting quality (value relevance). On the contrarily, variability of book value and net income, were found to be significantly higher under IAS than German GAAP. This is interpreted by the authors as an indication of low quality of the IAS relative to the German GAAP.

Then away from the German and US GAAPs, Müller (2014) determines the overall and relative impact of the IFRS adoption on the quality of financial reporting using value relevance as a proxy. The study found that the overall quality of financial records under IFRS regime is signigiantly higher. The results also point to the fact that there is better compliance with OECD Corporate Governance Principles as a result of IFRS adoption.

Paglietti (2009) used 160 Italian listed firms to examine the effect of the IFRS mandatory adoption in Italy. The study examine how and whether the quality of accounting information changes after IFRS adoption. Using value relevance as a barometer for accounting quality with

a sample of 960 firm-year observations from 2002 to 2007, Paglietti reported similar absolute improvement in the value relevance under IFRS. The study also reports variation in Italy's country-specific factors during the IFRS adoption era which is expected to enhance the quality of financial reporting.

Contrarily to this opposing view that IFRS adoption improves accounting quality, Cameran, Campa and Pettinicchio (2014) demonstrate that the switch from the Italian GAAP to the IFRS did not enhance the quality of financial reporting but rather reduced it. The research was based on sample of Italian private firms that adopted the IFRS within the period of 2005 and 2008. With the aid of propensity-score matching methodology, the study match financial reporting quality between IFRS adopters and a sample of companies still using local Italian GAAP. According to Cameran et al. (2014) the reduction in reporting quality is by reason of firms/preparers capitalizing on the level of flexibility that come with IFRS to their own reporting advantage.

In Australia, Lai and Taylor (2013) determine the effect of IFRS on reporting quality (measured as accrual reliability) among Australian firms that switch from Australian Generally Accepted Accounting Principles (AGAAP) to IFRS. Specifically, the study seek to empirically examine one potential metric of reliability in order to determine potential cost of IFRS adoption. The results of the study suggest a sharp decline in accrual reliability in the post-IFRS period which suggest a decline in reporting quality. The sharp decline in accrual reliability were on account of working capital, non-current operating, and financing accruals. Again the study reveal that the substantial decrease in the accrual reliability is made less severe in the presence of the Big 4 accounting firms which imply that the investment in technology and implementation expertise in itself create an impression of audit quality.

In agreement with Lai and Taylor (2013), Goodwin, Ahmed and Heaney (2008) also in Australia obtain virtually no evidence suggesting that the value relevance of earnings and equity reported under IFRS are better than the value relevance of earnings and equity reported under AGAAP using 1,065 listed firms in Australia. The variations in the reported outcomes could be attributed to the use of different measures taking into consideration the trade-off between reliability and relevance.

George (2008) considered the impact of the IFRS adoption in United Kingdom. The result of the study suggests that IFRS adoption leads to decline in earnings management and enhances the value relevance of accounting information which is interpreted as an indication of higher reporting quality.

Callao and Jarne (2010) report that the application of IFRS could not improve the quality of financial reporting in that the difference between book and market values (value relevance) is higher when IFRS are used. In contrast with the findings of Callao and Jarne (2010), Iatridis and Rouvolis (2010) document that the implementation of IFRS result in more value relevant accounting measures indicating a higher quality reporting. In support of this view (Gjerde, Knivsflå, & Sættem, 2008) examine the impact of the IFRS adoption among 145 Norwegian listed firms and found little proof of improved value-relevance during the post-adoption regime.

In summary, it is evident from the foregoing that studies that compared home country accounting standards with IAS/IFRS among the EU and US GAAP provides mixed results. Aside sample selection biases, methodological issues could as well account for the differences in the results in that this factors are capable of reducing the test power in this type of studies.

Away from advanced countries, some earlier studies have also concentrated on the effect of the new standards adoption on emerging markets. The adoption of the IFRS among developing

countries where law enforcement is said to be weak have equally sparked conflicting viewpoints.

Prather-kinsey (2006) claims that developing-country GAAP converging with IAS/IFRS can result in relevant and reliable information in developing countries. Prather-kinsey (2006) assesses the usefulness of financial information measured as value relevance and timeliness of two emerging markets: South Africa and Mexico after converging with IFRS. Using a weighted least-squares regression to investigate the relation between book values of earnings and equity with firm market values, the research established that in both Mexico and South Africa, earnings and/or book values are value relevant in explaining stock prices. This is interpreted by the author as an improvement in reporting quality.

Ames (2013) examines the effect of IFRS application on the overall quality of accounting in South Africa using earnings quality and value relevance as proxies. The study found no evidence indicating that IFRS application does not significantly enhance earnings quality among organizations during the post IFRS adoption. The study also found that specific component of the statement of financial position changed in value relevance when IFRS is applied. This findings support the view that IFRS enhances the quality of some aspect, but not the entire financial reporting components.

In Abu Dhabi, Alali and Foote (2012) determine the effect of IFRS adoption on reporting quality (value relevance) using monthly market data from 2000 to 2006. The study obtained evidence which upholds the notion that accounting information reported during post IFRS are more value relevant.

Elbannan (2010) agrees with Ames (2013) that earnings management does not decrease post-adoption using a sample of Egyptian companies adopting IFRS. Elbannan (2010) argues that

the lack of improvement in reporting quality is largely due to the weak enforcement of these standards by regulators and inadequate training of practitioners.

In other emerging market like Malaysia, Adibah Wan Ismail et al. (2013) use a large sample of 4,010 observations over a six year period to examine the earnings quality of Malaysian firms. Specifically, the study tests the differences in earnings quality by comparing the level of earnings management and value relevant three-year pre-adoption period and a three-year post-adoption era to ascertain whether is significantly lower during the post adoption period. The study found that earnings reported under the IFRS regime exhibit less earnings management and more value relevant. This findings provide further evidence in support of the view that IFRS adoption leads to higher reporting quality.

In Kenya, a developing country with relatively open capital markets but limited enforcement resources, similitude to other African countries, Bova and Pereira (2012) empirically evaluate the arguments on IFRS adoption that uniform IFRS adoption enhances comparability but does not necessary leads to higher reporting quality. The study focus on both private and public-traded firm observations from Kenya for the years 2005 through 2006. They find that firms that demonstrate higher compliance is positively correlated with share turnover. They highlight that mandatory IFRS adoption can still provide benefits to organizations in low enforcement nations, provided organizations have the economic inducements to achieve higher levels of compliance.

Almost all the above studies focus on single country as a subject of research by comparing the results of domestic GAAP with the results from applying IAS/IFRS, with a goal of determining whether applying IAS/IFRS leads to higher accounting quality. It therefore becomes pretty difficult to generalise the findings from the above studies using a sample of single country with one set of regulation due to differences across empirical specifications, and small sample size.

Callao and Jarne (2010) believe that local comparability is negatively affected if both IFRS and domestic accounting standards are applied in the same country at the same time.

Several other researchers have made cross-country comparisons (Ahmed et al., 2013; Atwood, Drake, Myers, & Myers, 2011; Clarkson, Hanna, Richardson, & Thompson, 2011; Houqe, van Zijl, Dunstan, & Karim, 2012; Jeanjean & Stolowy, 2008).

Ahmed et al. (2013) examine the impact of compulsory IFRS adoption on accounting quality for 3,262 unique firms drawn from 20 countries using three reporting quality measures namely: income smoothing, reporting aggressiveness, and earnings management to meet or beat a target. The study compared accounting quality of IFRS compliant firms from countries that complied with IFRS in 2005 to a standard set of organizations from jurisdictions that did not adopt IFRS taking into cognizance the level of legal enforcement, industry, size, book-to-market, and financial performance. The results of the study provide evidence that IFRS compliant firms demonstrate significant increase in income smoothing, aggressive reporting of accruals and significant decline in timely loss recognition compared to benchmark organizations. The study however found no evidence of benchmark beating behaviour after controlling for such management at benchmark firms. In summary, the results indicate that accounting quality significantly reduced during the post-IFRS period.

Atwood et al. (2011) also used 58,832 firm-year observations across 33 countries from 2002 through 2008 to compare the reporting quality (measured as earning persistence and value relevance) for organizations applying IFRS, US GAAP and non- US domestic accounting standards (DAS). The study established that earnings presented when US GAAP is applied are higher in terms of value relevant relative to earnings obtained when IFRS is applied. But the study found no significance difference in the persistence of positive earnings reported using IFRS and US GAAP. However, negative earnings reported under IFRS were found to be less

persistent relative to earnings reported under US GAAP which means that IFRS firms indulge more in earnings management compared to US GAAP. Thus, taken together, both US GAAP and IFRS are found to be of higher quality standards, however, the superiority of US GAAP relative to IFRS is evident in terms of its future cash flow predictability.

Similarly, using 5 accounting quality metrics, Chen, Tang, Jiang, and Lin (2010) investigate the quality of accounting information of organizations publicly listed across 15 member states of the European Union. The paper observed an overall general improvement in the majority of accounting quality proxies after IFRS adoption after 2005 in EU. Specifically, the study find that post-IFRS period are associated with less benchmark beating, a lower magnitude of absolute discretionary accruals, and higher accruals quality. However, further evidence reveals that organizations indulge in more earnings smoothing and recognize huge losses in a less timely manner after the transition to IFRS. The uniqueness of the study is that it establishe that the improvement in accounting reporting quality is solely attributable to IFRS adoption by controlling for other institutional factors that affect accounting quality.

Barth et al. (2008b) tested the validity of the conjecture that IAS/IFRS adoption leads to an enhanced reporting quality. The study compared four earnings management metrics, timely loss recognition and value relevance for IAS/IFRS compliant organizations with firms applying non-U.S. national standards for 327 organizations across 21 countries between 1994 and 2003. They document additional confirmation that IAS adoption generally leads to higher accounting quality. Specifically, the study find that IAS compliant firms exhibit lower earnings management, more timely loss recognition, and more value relevance of accounting amounts than their counterpart sample organizations using non-U.S. national standards. They emphasize that the application of the new standard mirrors the overall impact of characteristics of the financial reporting system, which include the standards, how they are interpreted, level of enforcement and litigation.

Similarly, Houqe et al. (2012) used 104,348 observations to investigate the earnings quality and investor protection across 46 countries based on the methodology adapted from (Defond & Park, 2001) discretionary accrual model. Their results show that earnings quality (measured through discretionary accruals) improved for mandatory IFRS firms in countries where investor protection were found to be strong. The study further emphasized the importance of protecting investors for better reporting and the essence of regulators putting in place appropriate mechanisms to constrain earnings management practices of managers.

Using non-financial data from 31 countries Leuz, Nanda, and Wysocki (2003) analyze the link between investor protection and earnings management. Consistent with (Houqe et al., 2012), they established that earnings management practices declines significantly leading to higher accounting quality when investors are strongly protected at the domestic front.

Jeanjean Stolowy (2008) focusing on France, Australia, and UK found no evidence of reduction in the perverseness of earnings management in both Australia and UK but rather increased in the code law country: France. The study further postulate that harmonization of national accounting standards alone is not enough to deal with management incentives and institutional factors which equally affect reporting quality. They recommended that proponents and regulators such as IASB, SEC, and European Commission shift their attention towards creating common goals rather than developing a universal accounting language.

These researchers believe that the efficacy of protecting investors at the country level explain variations in reporting quality across countries. Thus, countries with strong investor protection have higher chances of reducing earnings management activities of managers' leading to higher quality of reporting.

2.2.6 Empirical Review and Hypotheses Development on Financial Reporting Quality

2.2.6.1 IFRS and reporting quality in banks

Extant research has been conducted with regards to the effect of the adoption and implementation of IFRS in almost all sectors. However, there is still dearth of literature with regards to the impact of IFRS on financial institutions. Most often researchers tend to ignore financial institutions when studying IFRS and reporting quality due to the special accounting procedures peculiar to the sector and their strict regulatory treatment. (e. g. Callao & Jarne, 2010; Leuz et al., 2003; Van Tendeloo & Vanstraelen, 2005). Few studies have considered financial institutions and IFRS adoption (e. g. Bischof, 2009; Gautam, 2011; Günther Gebhardt & Novotny-farkas, 2010; Manganaris et al., 2015; Shen & Chih, 2005; Umoren & Enang, 2015).

Shen and Chih (2005) employ three measures of earnings management (EM) to examine the reporting quality of 47,154 banks across 48 countries including US. Specifically, the study test whether banks manage their earnings to achieve their targets. The study used a sample consisting of 70,955 observations for the period 1993 to 1999, drawn from the Bankscope database. They obtained evidence suggesting that earnings management in banks is not uncommon and the practice actually exist in almost all sample countries irrespective of the measures. The study further reveal that US banks however do not exhibit any evidence of earnings management when conventional measured are used.

In the same vein, Günther Gebhardt and Novotny-Farkas (2011) analyse the effect of IFRS adoption on financial accounting quality across twelve EU banks. They focused on the impact of the change in the recognition and measurement of loan loss provision on income smoothing practices and timely loss recognition. The results of the study show that the strict provisions of the new standard (IAS 39) has resulted in the significant reduction in the earnings management behaviour in banks in the form of less income smoothing. On the contrary, the application of

the new provision led to the delay in the recognition of loan loss which is interpreted as an indication of decline in the quality of reporting.

Further, the study reveal empirical evidence in support of the argument by (Ball, 2006; Houqe et al., 2012; Jeanjean & Stolowy, 2008; Leuz et al., 2003) that other confounding factors aside the standard such as level of supervision determine in no small way the quality of accounting reporting outcome. They explained that the separation of ownership from control actually account for the opportunistic actions of bank managers in making provision for huge losses due to higher demand for conservatism.

Using a sample of 178 listed banks drawn from the same European countries banking sector Manganaris et al. (2015) also explore the implications of the mandatory IFRS application on the reporting quality of banks across 15 countries. The study match the value relevance of accounting information and its association with conditional conservatism pre and post IFRS adoption from 1998 to 2011. They report an improvement in the informative level of earnings and a significant decline in book value relevance after mandatory IFRS adoption. In addition, earnings relevance was found to be higher after IFRS application suggesting that IFRS adoption leads to higher reporting quality.

Manganaris et al. (2015) also examine the role of institutional settings in reporting quality of banks and found that institutional parameters play a pivotal role in the level of value relevance and its association with conservatism especially in post IFRS period. Based on their findings they suggest that banks need be motivated to assimilate conservative practices in order to enhance value relevance and conditional conservatism so as to improve accounting quality.

Umoren and Enang (2015) also consented with the notion that IFRS adoption enhances the credibility of accounting information reported to shareholders. Descriptive statistics and least square regression results from the study show that both the equity value and earnings of

Nigerian banks are more value relevant to share prices under IFRS regime relative to the previous Nigerian SAS regime. Thus, earnings reported by Nigerian Commercial banks have become more informative to equity investors in ascertaining the value of banks following IFRS adoption. Umoren and Enang (2015) opined that the quality of financial reporting can be enhanced if standards setters and regulators put in place mechanisms to improve the value relevance of financial statements.

Gautam (2011) also found a slight increase in the quality level of financial reporting (measured through value relevance and earnings management) following mandatory IFRS adoption among Swedish banks. The study document a significant decline in the cost of equity capital because banks have easy access to wider investor communities across different nations through IFRS.

Bischof (2009) suggests that the application of IFRS 7 has had a positive effect on disclosure quality both in financial statements and in risk reports. He observed that the attention of disclosures has shifted from market risk exposures to credit risk exposures. The conclusions are based on descriptive evidence from samples of 171 major banks from 28 European countries. (Bischof, 2009) attributed the variations in the impact of the first-time adoption to differences in the level enforcement and interpretation of IFRS 7 by national banking supervision.

Following the foregoing discussions above, it is anticipated that the adoption and implementation of IFRS among financial institution in Ghana will affect their financial reporting quality. Hence the formulation of hypothesis one.

H0: IFRS affect the financial reporting quality of financial institutions in Ghana

H1: IFRS do not affect the financial reporting quality of financial institutions in Ghana

2.2.7 Empirical Review and Hypotheses Development on Audit Fees

2.2.7.1 IFRS and other regulatory changes and audit fees

Extant academic literature has investigated the economic consequence of major accounting regulatory reforms on financial reporting with respect to quality, compliance level, costs and benefits both at national and cross-country level. Most of these studies have focused on the benefit of these major shift, however, very few empirical studies directly examined the cost side of these changes. Auditing activity is a crucial part of the transition to the IFRS, and audit fees constitute a significant portion of the accompanying implementation costs of these new regime. In 2007 the Institute of Chartered Accountants in England and Wales (ICAEW, London) graded rising cost of audit as one of the substantial IFRS-attendant costs in its report (Griffin, & Lont, 2007). It is relevant to understand the implications of major accounting regulatory changes on the audit market, since such changes could affect the quality and related cost of their service.

The Sarbanes–Oxley Act of 2002 (SOX) is possibly the most far-reaching public prominence and confining regulatory reforms for US firms and their auditors since 1930 (Griffin et al., 2007). Griffin and Lont (2007) in the USA examine the impact of this new legislation on the audit and non-audit fees of financial statements. Results from the logarithmic model reveal a significant increase in the audit fees after SOX regulation was enacted.

In a similar vein, Salman and Carson (2008) in Australia also investigated the effect of the new legislation namely, Corporate Law Economic Reform Program Act of 2004 (CLERP 9) passed on 30 June 2004. This legislation which is similar to SOX Act of US though less descriptive relative to the SOX was aim at improving the corporate governance, audit quality and auditor independence. In agreement with the results of Griffin et al. (2007). Salmon and Carson (2008) also documented a sharp rise in the audit fees following the enactment and adoption of these reforms. They identified incremental audit effort and audit risk as the major audit fees drivers

responsible for the substantial rise in audit fees following SOX implementation. Thus, SOX require an integrated audit of firm's financial statements and disclosures which require additional time and resources much more than the earlier provisions leading to higher audit fees.

Interestingly, Griffin et al. (2009) found a rather contrasting results with the findings of Salmon and Carson (2008) which report an increase in the audit fees as a result of the implementation of SOX in New Zealand. The study ascertain the implications of SOX of US and other local governance regulatory reforms on the audit and non-audit fees among New Zealand audit firms for the period 2002 through 2007 and found that audit fees paid by public firms did not materially change following the application of these regulatory changes.

The widespread adoption of IFRS around the world has been overly acknowledged as the greatest transformation in accounting regulatory framework ever witnessed. The adoption of IFRS is seen to cause a transformation in financial reporting regime that leads to increased information disclosure as it demands more detailed disclosure information than most previous local GAAPs. Prior Studies that have analysed the effect of IFRS adoption on auditing suggest that the implementation of this new standards come with significant cost implications attributable primarily to the resultant increased in audit effort and audit risk.

The application of IFRS like SOX demand greater exertion from auditors. Much effort is demanded from auditors in that IFRS are more principle oriented, and based on fair values relative to the local GAAP, which are based on rules and historical cost which call for difficult estimations and higher professional judgement from auditors (KPMG, 2007; Kim et al., 2012). The adoption of IFRS is expected to be more costly during the year of transition as a result of the greater effort, knowledge, skill and competencies needed to implement the new standard.

According to Kim et al. (2012) the adoption of IFRS could impact audit fees in two main ways From one perspective, the increase in the complexity of the audit task as a result of the switch to the new standard may leads to higher audit fees. From another perspective, the higher quality of financial statement brought about by the IFRS adoption cause a decline in the audit fees. In other words, the application of IFRS could either leads to an increase or reduction in the audit fee depending on the level of complexity of the audit task and the resultant effect on the quality of accounting information. The results from their analysis show a substantial increase in audit fee which indicate that the level of difficulty of the audit task is the main determinant of audit fee.

Kim et al (2012) further observed that the audit fee in the year of adoption is mostly higher compared to the subsequent years which they attributed to the time and effort taken by auditors to learn the new standards and additional audit effort required to review the comparative financial statement arising from the retrospective application of the new standard.

Cameran and Perotti (2014) also determine the impact of IFRS implementation on audit fees and made an interesting conclusion in line with the findings by Kim et al. (2012). They posit that the adoption and transition to the IFRS could impact audit fees in two main ways. In the first place, incremental effort is demanded from auditors which is expected to result in higher audit fees. Alternatively, if IFRS enhances the transparency of the financial statement resulting in lower inherent risk then lower audit fees is likely to be charged. This conclusion by Cameran & Perotti (2014) was based on examination of the effect of implementing IFRS on audit fees on Italian banking industry both listed and non-listed from 1999 to 2006. The outcome reveals that audit fees paid by the banks were much higher after implementing IFRS.

Griffin et al. (2007) again tested the potential impact of the adoption and transition to the IFRS using 653 company-year observations from 2002 to 2007. In line with prior studies the study

employ pooled cross-sectional audit model and obtained evidence consistent with the broad contention that IFRS adoption significantly increases audit fees particularly in the first year of application. The study however found no association with non-audit fees over the same period.

In agreement with Griffin et al. (2007), Schadewitz and Vieru (2008) find that small and medium size firms in Finland pay audit fees premium, especially non-audit fees, in the first year of IFRS adoption due to extra audit risk and workload. They opine that increased work load and high audit risk related with IFRS transition culminated in the increased fees. They further obtained evidence which suggest that transition costs are mostly associated with non-audit services rather than audit service indicating that these cost are mainly due to IFRS start-up and learning costs.

The impact of IFRS adoption on audit fees as examined by De George et al (2008) for 438 listed Australian firms reveals a significant positive association between incremental audit fee and IFRS adoption. The study document an overall increment in total audit fees after IFRS implementation and that the rise is quiet huge for smaller firms. They further establish that the general uncertainty associated with IFRS transition also contributes to the huge implementation costs of adopter companies. They believe that the risk surrounding financial reporting illicit much surveillance from investors especially when IFRS is applied which exposes auditors to higher litigation risk. This risk according to De George et al. usually culminate in the huge audit fees.

Risheh (2014) analyse the impact of IFRS for a total of 1274 financial statements extracted from 91 Jordanian industrial firms listed in Amman Stock Exchange (ASE) during the period 1998 to 2011. The study introduced goodwill as a new variable in an OLS cross-sectional regression to test the objective. The result shows a substantial rise in audit fees during the post-adoption era which is consistent with prior studies. Aside the complex nature of the

transition coupled with increased regulation, the auditor's lack of proper preparation can as well pose greater client risk for the audit assignment. This situation require more effort from the auditor which is usually reflected in higher audit fees (Risheh, 2014).

In the case of Korea, Choi and Yoon (2014) explore the impact of N factor, and the IFRS-related consulting services of auditors on audit fees. They document evidence showing that IFRS adoption increases audit fees which confirms that IFRS application broadens the scope and risk of the audit which require the application of higher level of professional scepticism beyond the application in the conventional standards environment. They further discovered that Korean accounting firms affiliated with Big N audit firms rather invest huge amount in training employees, sustaining auditing standard and goodwill, and acquiring experience and professional skill from their foreign counterparts which account for the high audit fees charges.

On the contrary, the study finds that IFRS-related consulting services provided by auditors adversely affect the relationship between IFRS and audit fees which suggest that auditors can reduce total audit costs through the knowledge spill over effect between the main audit and other consulting services irrespective of independence impairment. This is because they already understand the internal controls of clients from their consulting experiences. This results is widely supported by (Krishnan & Yu, 2011)

Lin, and Yen (2011) in China find evidence consistent with the findings of (Choi & Yoon, 2014) that accounting firms affiliated with Big 4 firms charge substantially higher incremental audit fees following IFRS adoption due to heavy investment in improving expertise and gaining experience in order to offer high quality audit service to their clients. This imply that IFRS-related expertise is a major audit fees driver during the new accounting standards transition period. The results further suggest that public entities pay relatively lower fees after switching

from the domestic standards to the new standards as a result of lower demand for financial reporting quality which may require the services of small auditors.

Broadly, these studies present consistent evidence of an increase in audit fees in the post-IFRS era. It is therefore expected from the foregoing discussions that audit fees should increase as a result of the extra audit effort and risk following IFRS adoption. The following hypothesis is developed in order to achieve the second stated objective.

H_0: IFRS adoption affect audit fees

H_A: IFRS adoption does not affect audit fees

2.3 Determinants of Audit Fees

Auditing activity is a critical aspect within the financial reporting process of companies. The adoption and transition to the IFRS has even heighten the demand and supply for the services of auditors. This is because auditors are the main consultants to firms in matters concerning the new standards. Audit fees has been cited as one of the major cost associated with the IFRS adoption and its implementation.

Consequently, a considerable number of studies has been undertaken to determine the implication of major new regulatory reforms on audit and non-audit fees (e.g. (Cameran & Perotti, 2014; C. Chen, 2014; Choi & Yoon, 2014; De George et al., 2013; Griffin et al., 2007; Griffin et al., 2009 Risheh, 2014). However, only few concentrate on the drivers that cause variations in the level of audit fees particularly on financial institutions (Fields et al., 2004; Kanagaretnam et al., 2008; Simunic, 1980). Prior research that focus on factors that drive audit fees mostly analyze company-specific characteristics, auditor attributes, and engagement attributes, industry sector and other factors. The size, operational complexities, profitability and leverage of a company, form of ownership are examples of firms specific factors identified in literature as well-established independent variables related to audit fees (Hay, Knechel, &

Wong, 2006). Total audit fees according to literature is a function of the size of the firm, the complexity of the auditee's operations and the risk of the clients. Cameran (2005) examine the main audit fees drivers in the Italian audit market and found that the size, the complex nature of the auditee, and audit risk largely impact on total audit fees paid.

2.3.1 Size

Prior studies on audit fees (Fields et al., 2004; Simunic, 1980) have found that the size of the company is the most critical determinant of fees. Simunic (1980) argues that audit of bigger firms require extra audit tests and procedures, more effort and time to test and analyse the company's large data and information. Hay et al. (2006) ranked size as the most dominant and influential control variable which accounts for over 70 percent of all variations in audit fees following a detailed analysis of existing studies on audit fees. According to Fields et al. (2004) large banks are usually associated with complex financial portfolios and diverse sources of liquidity than small banks including varying risk profiles. For example, Demsetz and Strahan (1997) cited in Fields et al. (2004) demonstrate that most bigger bank holding institutions are permitted to conduct business with less capital ratios and more often undertake high risk operations. Natural logarithm of total assets of the firm is considered as the size.

2.3.2 Complexity of the Auditee's Operations

Typically, it is believed that the more complex the operations of the auditee, the more difficult and time consuming it is for auditors to undertake such audit (Hay et al., 2006; Simunic, 1980). Complexity consists of two main aspects; the level of decentralization and diversification of the financial reporting entity. The degree of decentralization and diversification determines the number of decision centres in an organization whose activities need to be monitored. Several variables has been adopted by researchers as indicators of complexity in audit fees models. Typical among them include the number of subsidiaries which determines the level of decentralization, the number of foreign subsidiaries, the number of business segment, the

proportion of foreign assets, principal industry of the client, the nature and structure of the assets such as inventories and receivables etc.

Empirical evidence shows that complexity of auditee's operations is equally an important variables which strongly influences audit fees. Complexity and audit fees are mostly reported to be positively associated (Hay et al., 2006) .

2.3.3 Risk

In order to minimize audit risk, auditors usually follow a risk based approach to auditing. This involves auditors assessing the risks associated with the client's business, transactions and systems which could result in material misstatements in the financial statements. This approach helps them to focus more attention and resources on areas that present potentially greater loss exposure. Therefore, the level of perceived risks associated with a client's operation determine the degree of audit effort to devout and the specialized type of audit procedures to adopt. Several measures of risk have been considered by researchers including inherent risk, liquidity risk, capital risk etc. Researchers that concentrates on financial institutions particularly banks mostly measure risk using liquidity risk, capital risk and operating risk.

2.3.4 Inherent Risk

Prior studies that focus on audit fees drivers document a strong positive relation between total audit fees charged and the level of risk associated with of the client's financial statement (Simunic, 1980). Simunic (1980) identified receivables and inventories as the two most complex and risky components on the statement of financial position in that the valuation of these figures require a forecast of future events. As such the size of client's inventories and receivables determines the level of audit risk. Measures that are mostly used as index for inherent risk are total inventory, receivables or sum of inventories and receivables scaled by total assets at the beginning of the year.

2.3.4 Liquidity Risk

Liquidity risk is represented by transaction account and investment securities. Studies conducted by (Fields et al., 2004; Marra, Mazzola, & Prencipe, 2011) reveals that banks with high level of transactions accounts are mostly associated with more complex activities. This accounts present greater challenge to auditors to audit and monitor which is more likely to trigger higher audit fees from auditors.

2.3.4 Operating Risk

Efficiency Ratio is widely used as a proxy for operating risk for mostly banking firms. This is consistent with (Marra et al., 2011). Efficiency is measured as the total operating expense divided by total to total revenue. In the case of insurance industry, efficiency is computed as the total claims divided by gross premium. Low efficiency ratio suggest a higher operating risk and consequently greater complexity for the audit function.

2.3.5 Capital Risk

Capital risk is determined by the total amount of banks and insurance regulatory reserves and total intangible assets. The amount of intangible assets and reserves is expected to be positively related to capital risk and, thus, to audit fees. This is consistent with (Cameran & Perotti, 2014)

2.3.6 Credit Risk

Fields et al. (2004) describe credit risk as the primary risk faced by banks. Credit risk is represented by the amount and quality of the bank's total loan portfolio. This include commercial loans, industrial loans, agricultural loans and loans to depository institutions etc. It is argued that the audit and review of loans especially commercial loans most often poses serious challenge to auditors due to lack of transparency surrounding the loan collaterals, syndications and provisions. Hence, the larger the bank's loan portfolio, the higher the credit risk and consequently the higher the audit risk faced by auditors. The study therefore anticipate

a positive relationship between gross loans and audit fees. Credit risk is measured as the ratio of the gross loans and total assets at the beginning of year.

2.3.7 Type of Auditor (Big 4 versus non-Big 4 Audit Firms)

The quality of audit has been established in literature to largely account for the variations in audit fees. (Choi & Yoon, 2014; Francis & Stokes, 1986; VSchadewitz & Vieru, 2008). High audit fee premium is mostly expected when the audit is perceived to be of superior quality. A number of proxies have been used to represent audit quality. Most commonly used indicator are firms classified as being in the Big 4 audit firms namely: Price Waterhouse Coopers (PWC), KPMG, Ernst & Young, and Deloitte. Big 4 accounting firms invest in their brand name and are mostly considered to be high-class auditors.

These firms with an international network are likely to have more audit experience and greater expertise in IFRS than non-Big 4 firms and are likely to conduct more thorough training for auditors. Moreover, their superiority may stem from their heavy investment in resources in acquisition of knowledge. Consequently, their relatively high cost of investment in maintaining quality and reputation resulting in higher audit fees charges. Prior studies have attributed this gap in audit fees between the Big 4 and other domestic audit firms to the monopolistic power of the Big 4 or as a result of their reputation (goodwill) enjoyed by the Big 4 accounting firms (Cameran, 2005). This observation that the Big 4 audit firms are mostly associated with higher audit fees has been strongly supported by several researchers (Cameran & Perotti, 2014; Cameran, 2005; Choi & Yoon, 2014; Risheh, 2014; VSchadewitz and Vieru, 2008).

2.3.8 Non Audit Fees

Similarly, non-audit services can equally affect the level of audit fees. Research findings on the relationship between audit and non-audit fees has been mixed. Some researchers claim that the amount of non-audit fees should reduce as a result of knowledge transfer between audit and

non-audit fields when any consultation or design service related to the same client by the same audit firm. Other group of researchers posit that higher fees should be charged for non-audit services since non-audit services is more likely to cause significant change especially in firms that demand extra audit task.

A recent study by Choi and Yoon (2014) on the effect of IFRS on non-audit fees document evidence of negative effect on the relationship between IFRS and non-audit fees. In contrast, Griffin et al. (2009) found that the correlation between audit fees and non-audit fees is positive and significant**.** With the aid of a single and simultaneous equation models, Krishnan and Yu (2011) sought to establish the link between audit fees and non-audit fees. Their findings from the single-equation model support the claim that audit fees is positively correlated with non-audit fees which upholds the knowledge spill overs between the two services. Krishnan & Yu (2011) further subjected this claim to more rigorous test using simultaneous equation model and found no association between these two fees which is contrarily to the results from the single equation model.

2.3.9 Industry and Listing Status

The industry in which an industry operates may equally determine the degree of audit risk and consequently the level of audit fees. Again, the listing status of a firm may also influence the level of audit fees. This is because listed firms are required by regulation to meet certain level of disclosures which require extra audit effort from auditors. Cameran and Perotti (2014) tested this observation and obtain a positive correlation between audit fees and listing status of a firm.

2.4 Empirical Review and Hypothesis Development on Audit fees and financial reporting quality

2.4.1 Audit fees and financial reporting quality

External auditing has become an essential part of companies operations. This is because the activity add credibility to the financial statements issued to the various users for making informed economic decisions. However the major concern that has attracted the attention of both academic and researchers has been the level of audit fees paid by these firms. Extant research have been conducted specifically to determine the main determinants of audit fees (Cameran, 2005; Fields et al., 2004; Kanagaretnam et al., 2008).

Another strand of studies which seek to further understand audit fees drivers which has attracted much institutional, regulatory and scholarly discourse has been the issue of whether the financial reporting quality of the clients influence the level of audit fees charged by these auditors (Larcker & Richardson, 2004).

Results from empirical studies that focus on the association between audit fees and quality of accounting information has been mixed. While some report a negative relationship (Gul, Chen, & Tsui, 2003), other researchers find virtually no relationship (Larcker & Richardson, 2004).

An investigation into the nexus between discretionary accruals (DAs) by Gul et al. (2003) established a positive relationship between reporting quality and audit fees. This suggest that higher audit premium is charged when financial reporting quality of the auditee is recognized to be low. Gul et al. (2003) emphasis that the strength of the association is based on the type of managerial ownership and the accounting based management compensation of the firm.

Bedard and Johnstone (2004) also analyse the connection amid the level of assessed manipulation risk of the client's financial statement and the planning and pricing decisions of

auditors. They provide evidence which suggests that auditors tend to alter their audit plan in responds to perceived higher risk of earnings manipulation which eventually result in higher audit fees. This findings support the provisions of International Auditing Standards (e.g., SAS No. 47) which require auditors to alter the nature, timing, and extent of audit procedures to respond to engagement risks. Their findings further support the claim that low reporting quality in the form of high manipulation risk is positively association with higher audit fees (Gul et al., 2003).

Bedard & Johnstone (2004) further investigated the link between corporate governance risk and audit planning and charges and found no relationship between the two.

In agreement with the findings from prior academic researchers (Bedard & Johnstone, 2004; Gul et al., 2003). Feldmann et al. (2009) assert that the higher audit fees charged is a complete reflection of the cost arising from perceived audit risk and loss of organizational legitimacy.

Using a sample of 119 audit engagements from The Netherlands (Schelleman & Knechel, 2010) examine how the pricing and production of audit services is affected when there is perceived risk of earnings management. Results from the audit models reveal that signed short-term accruals (earnings management) are associated with a significant increase in audit fees arising from extra audit effort. They again discovered that auditors employ more supervisors, assistants and support personnel at the expense of their profit when a client has higher risk of earnings management. Their results are most consistent with auditor behaviour being constrained by the reputation concerns associated with allowing clients to engage in earnings management practices (Larcker & Richardson, 2004).

Empirical results from the these studies generally support the view that auditors tend to be more responsive to assessed risk of their clients in their audit engagement through additional effort which tend to increase the billing rate. However, empirical support for significant positive association between financial reporting quality and audit fees is not universal. Few others found

a negative association between the financial reporting quality of auditee and the amount of audit fees paid (Blankley, Hurtt, & MacGregor, 2012; Chi, Lisic, & Pevzner, 2011; Frankel, Johnson, & Nelson, 2002; Hoitash, Markelevich, & Barragato, 2007).

Frankel et al. (2002) investigate the relation between the financial reporting quality (measured through earnings management) and the level of audit fees. The study present empirical evidence of a negative association between audit fees and reporting quality (earnings management indicators). They however report a positive relation between non-audit fees and financial reporting quality. Interestingly, the study found no relation between total fees and any of these earnings management proxies, which suggest that combining audit and non-audit fees into a single measure neutralises their differential incentive impact.

In addition, they conduct an event study to investigate whether the market respond to the disclosure of auditor fees. The results present empirical evidence that auditor independence is compromised when clients pay high non-audit fees relative to total fees.

Even Larcker and Richardson (2004) agree with the opposing view by (Frankel et al., 2002) that audit fees is negatively associated with reporting quality. Using latent class mixture analysis with samples consisting of 5,103 firm-years for fiscal years 2000 and 2001 the study find consistent evidence of a negative association between the levels of fees paid to auditors and accruals. Thus, higher fees are associated with smaller accrual.

Hoitash et al. (2007) tested the validity of the relation between fees paid to auditors and audit quality during the period of 2000-2003. The study utilize two metrics as indicators of audit quality (i.e. an accruals quality measure developed by Dechow and Dichev (2002) and the magnitude of absolute discretionary current accruals consistent with Ashbaugh et al., 2003) on a data set consisting of 13,860 observations. They document additional evidence of statistically significant negative association between total fees and audit quality for both proxies over all

the study period. Hoitash et al. (2007) further provide evidence in support of the proposition that economic bonding arise primarily from audit services and not non-audit services. Similarly, Chi et al. (2011) postulate that audit fees and industry expertise are associated with higher levels of real earnings management.

A recent study by Cameran and Perotti (2014) on this very subject conclude that the increase in audit fees cannot be explained by the financial reporting quality. Nonetheless, the study find evidence in support of the conjecture that the adoption of IFRS/IAS increases the workload required from auditors which rather lead to higher fees (19.29 per cent in real terms). Cameran and Perotti (2014) concentrated on Italian banks industry considering both listed and non-listed firms from 1999 to 2006.

Ashbaugh and Mayhew (2003) contested the claim by Frankel et al. (2002) that non-audit fees are positively associated with measures of biased financial reporting. Consistent with (Frankel et al., 2002). Ashbaugh and Mayhew (2003) utilized discretionary accruals and earnings benchmarks as proxies for biased financial reporting. The study obtained no evidence of association between audit fee ratio and the likelihood of firms reporting small earnings increases similar to the findings of reported by Frankel et al. (2002). Contrarily to the findings of (Frankel et al., 2002) the study find no statistically significant relation between either the fee ratio or total fees, and firms meeting analyst forecasts (earnings management). In addition, Ashbaugh and Mayhew (2003) document a negative association between total fees and the likelihood of firms reporting small earnings increases.

Chung and Kallapur (2003) measured the discretionary accrual using the Jones model as proxy for reporting quality and examined it relationship with the audit fee. Again, the study considered other four subunits of organizations where it is more likely for management to

smooth earnings and concluded that there is no relationship between both audit fees/non-audit fees and earnings management metric in support of the findings of Ashbaugh & Mayhew (2003).

The results from the foregoing discussions show a conflicting results without a clear universal agreement. Following the competing theoretical arguments and the mixed empirical evidence, the following hypothesis is formulated to test objective three above.

H0: financial reporting quality is associated with audit fees

H1: financial reporting quality is not associated with audit fees

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This section looks at the research method employed in conducting the study. The methodology sets out the procedure and tools that enabled the researcher achieve the objectives of the study which were outlined in chapter one. This section of the study consists of research paradigm, design, the population of the study, sampling and sampling techniques, sample size, data collection instruments, data analysis and the ethical considerations of the study.

3.2 The Research Paradigm

"A paradigm determines the criteria according to which one select and defines problems for enquiry and how one follows them theoretically and methodologically". Thus, how a problem is formulated and methodologically tackled (Kuhn, 1970). The objectives of this research are tackled from the perspective of positivistic paradigm**.** Therefore, based on the positivists' epistemological approach, this study employs the quantitative approach. This approach provides the opportunity to utilize statistical, mathematical and computational techniques to formulate acts and uncover patterns (Saunders, Lewis & Thornhill, 2011).

3.3 Research Design and Execution Strategy

The purpose of the research is to assess the impact of the IFRS adoption on the reporting quality and cost of audit of financial institutions in Ghana. To achieve the research purpose, the study design employed quantitative approach for this study based on objectivist philosophical position.

A panel data was generated through secondary data, extracted manually from audited annual financial statements of banks and insurance companies that are IFRS compliant in Ghana. The study addresses the first objective by measuring the level of earnings management activities

engaged in by managers of selected firms. Specifically, the study follows the approach by (Altamuro & Beatty, 2010; Beathy, Ke, & Petroni, 2002; Cameran & Perotti, 2014; Kanagaretnam, Yeow, & Lobo, 2010) and measure the likelihood that managers manipulate earnings for benchmark-beating behavior using two traditional proxies of earnings management; managing earnings for loss-avoidance and managing earnings for just-meeting- or beating prior year's earnings (JMBE), also referred to as managing earnings to avoid earnings decreases.

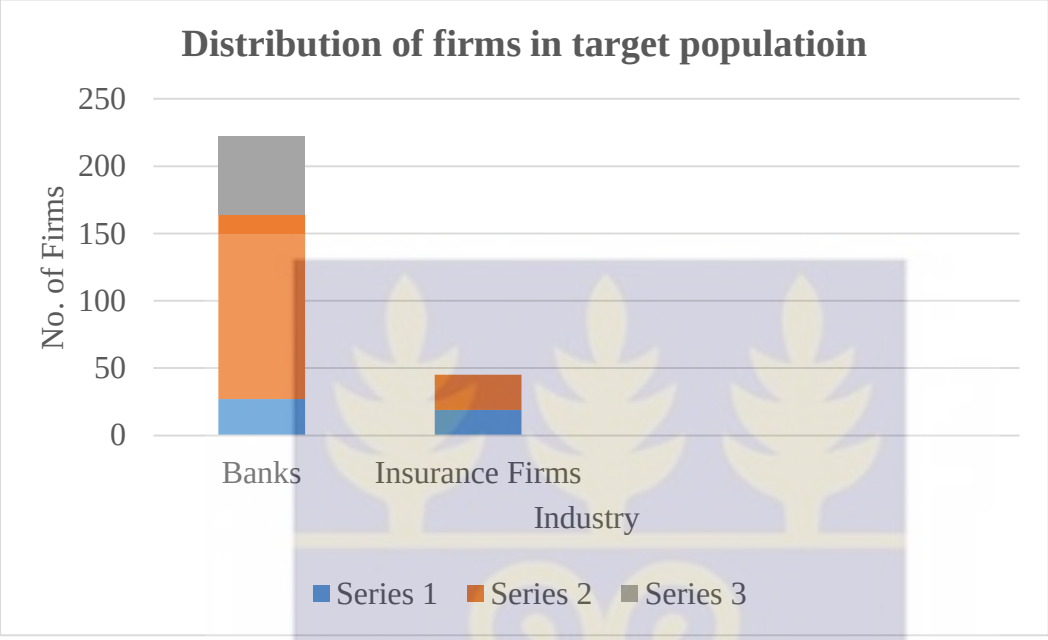
With respect to the second objective and to test the second hypothesis, the study adapts the conventional audit fee regression model developed by Simunic (1980) which has been adopted, modified and used in several earlier audit studies (Cameran & Perotti, 2014; De George et al., 2013; Fields et al., 2004; Griffin et al., 2007; Gul et al., 2003; Larcker & Richardson, 2004; VSchadewitz and Vieru, 2008). These studies informed the selection of variables used in this model. In relation to the third objective, which seeks to test the relation between financial reporting quality and audit fees, the study adapts model used in other prior related studies (Bedard & Johnstone, 2004; Feldmann et al.; Gul et al., 2003; Schelleman & Knechel, 2010). The results of the study is generated and analyzed with the aid of computer software (STATA) and through other descriptive statistics.

3.4 Population of the Study

The target population of this study was captured from a total of 267 firms from the financial institutions in Ghana which comprises all banks and insurance companies. The banking industry is made up of 27 universal banks, 137 rural and community banks, and 58 non-banking financial institutions including finance houses, savings and loans, leasing and mortgage firms (Pwc, 2014). The insurance industry consist of nineteen (19) life insurance

firms and twenty-six (26) non-life insurance companies (National Insurance Commission, 2014). The chart below shows the distribution of firms in the target population.

Figure 3.1: Distribution of Firms in Target Population



3.5 Sample Size and Sampling Techniques.

According to Miles & Huberman (2002), it is impossible to study everybody everywhere and do everything when conducting research. Denscombe (2003) also posit that, it is virtually unattainable for researchers to gather data from all categories being investigated. Therefore a researcher must endeavor to obtain evidence from a section of the population through a sampling technique. In order to conduct a pre- and post-IFRS adoption effect analysis, the study employs stratified probability sampling technique in the selection of firms for the study.The sample selection covers firms within the target group with at least two years application of the local standard: Ghana National Accounting Standard *(GNAS)* in Ghana and subsequent post-application of the new standard (IFRS) for at least two years. By this criteria 137 rural and community banks, and 58 non-banking financial institutions including finance houses, savings and loans, leasing and mortgage firms have been excluded from the study due to failure to

adopt and comply with the new standard (IFRS). Further, 4 universal banks and 17 insurance firms have also been eliminated from the study due to unavailable or incomplete set of data. In all a total of 216 firms have been removed from the sample leaving a final sample size of 51 firms made up of both listed and non-listed for the study which entails 23 universal banks and 28 insurance companies. All together, the sample consists of 530 firm-year observations covering a period of twelve (12) years from 2003 to 2014. The table below shows the resulting sampled size used for the study.

Table 3.1 Sample Size of firms used for the study

Industry	**Number of Companies**	**Number of Observations**
Banks	23	265
Insurance Firms	28	265
Total	**51**	**530**

3.6 Data Source and Data Collection Instrument

This study depended solely on secondary data; the annual financial statements of banks and insurance companies selected for the study. The data was gleaned from the audited annual financial statements of the selected firms over the study period.

Audited Annual reports of sampled Banks from 2007 to 2014 were downloaded in soft copy format from their official websites. However, audited annual reports of banks from year 2003 to 2006 were most instances unavailable online. Again the soft copies of the annual reports of banks downloaded online did not contain the Notes to the accounts, which contain very crucial variables such as total audit fees, allowance for loan loss, gross loans etc.

As a result, hard-copies of audited annual reports from year 2003 to 2006 were directly accessed from the Bank of Ghana library. Hard-copies of these documents were also obtained directly from headquarters of specific banks whose annual reports were unavailable both online and Bank of Ghana library.

Example of these banks include: National Investment Bank (2011 -2014), Stanbic Bank (2004-2006, 2011-2014), Barclays Bank (2012-2014), First Atlantic Merchant Bank (2010-2014), Bank of Africa (2010-2014) etc.

In the case of insurance industry, audited annual reports of the sampled firms from year 2007 to 2014 were officially obtained in soft copy format from the National Insurance Commission (NIC) headquarters. In the same vein, about 80% of these annual reports contain only the financial statements without the accompanying Notes to these financial statements. Therefore, hard-copies of audited annual reports from 2003 to 2006 and other variables contained in the Notes to the accounts were directly accessed and extracted from the shelves at the headquarters of NIC.

The use of secondary data source is deemed to be more appropriate for the purpose of this research in that apart from its relatively easy access, and preciseness it is also devoid of subjectivity associated with other modes of data collection such as interviews and questionnaires (Ghauri, 2005). Again, the regulatory framework governing the preparation of company annual reports helps ensure that the annual report is a reliable and attested public document (Ghazali, 2010). The limitation associated with this source of data is that the researcher has no control over the quality of the data (Saunders, 2009). It therefore behoves on the researcher to authenticate the reliability and quality of the data. In an attempt to authenticate these documents, a soft copy formats of extracted variables were obtained officially from Bank of Ghana and compared with those obtained online.

3.7 Ethical considerations

The impact of ethics is seen in all forms of social research. This is because research involves collecting data from people and corporate subjects (Saunders, 2007). Every researcher is guided by a set of moral principles in the choice of how to conduct themselves with regards to ethical issues such as confidentiality, anonymity, legality, professionalism and privacy when

dealing with people in research.Therefore the design of research must be both methodologically sound and morally defensible to all the participants involved. Hence the rights and concerns of people in the research process must be respected. In the light of the above, the researcher in the process of data collection, analysis, and dissemination of information took cognizance of research ethics and governance.

3.8.1 Specifications of Model Variables

The main variables that are considered for this study are IFRS, audit fees, and financial reporting quality measured through earnings benchmark model. It is predicted that reporting quality and audit fee would be significantly impacted under IFRS period. Several other control variables have been selected on the basis of earlier studies and are likely to have an impact on audit fee and financial reporting quality. These variables and how they are measured are discussed below.

3.8.2 Earnings Benchmark Model

This model measures the tendency of managers using accounting discretion to avoid losses or to manage earnings towards a small positive net income (SPOS) for benchmark-beating behaviour. A firms-year observation is classified as small profit or small loss if positive (negative) after tax net income falls within the range of 1 percent of lagged total assets (Burgstahler et al., 2006). Following the approach recommended by Degeorge et al (1999) the study ascertained small profit (SPOS) as the bin width of twice interquartile range of the variables (ROA, ΔROA) multiplied by the negative cube root of the sample size. Based on this formula, the study apply an interval of 0.002 and 0.0005 as threshold for Loss avoidance (LA) and just meeting or beating prior year's earnings (JMBE) matrix. These thresholds are all within the range of 0.2 and 0.08 for ROA and ΔROA obtained from the formula above and consistent with prior literature (Kanagaretnam et al., 2010).

In line with (Barth, Landsman, & Lang, 2008; Cameran & Perotti, 2014; Kanagaretnam et al., 2010; Leuz, Nanda, & Wysocki, 2003) earnings management as a measure of reporting quality is examined using a logit model. This model relate an earnings benchmark indicator (LA, JMBE) to the dummy for IAS/IFRS financial statements and to other set of independent variables. Thus, a positive (negative) coefficient of the dummy for IAS/IFRS indicates lower (higher) earnings management with the new standards. The main idea underlying this measure is that management have a strong incentive or prefers to report small positive net income rather than negative net income.

The primary evidence of this benchmark beating behaviour according to Burgstahler and Dichev (1997) is mostly reflected in the form of unusually low frequencies of small earnings decreases and abnormal high frequencies of small earnings increases. Burgstahler and Dichev (1997) cited prospect theory as the main theory underpinning this benchmark beating behaviour by managers. Prospect theory by (Kahneman, Tversky, Kahneman, & Tversky, 2016) suggests that individuals' value functions are concave in gains and convex in losses. Therefore, if zero is a natural reference point for change in earnings, then managers will manipulate earnings so the change is positive.

3.9 Specification of Reporting Quality Variables.

3.9.1 Earnings Benchmark (EB)

Earnings Benchmark (EB) is measured by the frequency of loss avoidance (LA) and the frequency of just-meeting-or-beating prior year's earnings (JMBE).

3.9.2 Loss Avoidance (LA)

LA is an indicator variable taking the value one if the company has a small ROA (income before taxes scaled by total assets) in the interval between 0 and 0.002. the threshold for this

measure is based on prior studies on loss avoidance on banks (Kanagaretnam, Krishnan, & Lobo, 2008)

3.9.3 Just-Meeting-or-Beating prior year's Earnings (JMBE)

JMBE is a dummy variable taking the value one if the institution record a change in ROA (Profit before taxes scaled by total assets) from prior year to current year within the interval of 0 and 0.0005, zero otherwise. This is in line with (Kanagaretnam et al., 2008).

3.9.4 International Financial Reporting Standards

IFRS is an indicator variable taking the value of 1 if the firm uses IFRS and 0 otherwise. IFRS is the key experimental variable in this model. A positive coefficient of the dummy variable for IFRS implies lower earnings management (higher reporting quality) while a negative coefficient of the dummy for IFRS indicates higher earnings management (lower reporting quality) with the new standards. That is a negative coefficient on the dummy IFRS indicate that IFRS compliant firms manipulate earnings toward small positive amounts more frequently during the pre-adoption period than they do after adopting IFRS. This is consistent with prior studies (Barth et al., 2008b; Cameran et al., 2014). It is predicted that IFRS will be positive indicating an improvement in the reporting quality of financial institutions in Ghana.

3.9.5 Other Independent Variables

In line with empirical studies (e. g. Barth et al., 2008; Beathy et al., 2002; Cameran et al., 2014; Kanagaretnam et al., 2008) the study introduced the following variables: SIZE GROWTH, CFO, LIST ALLOW, LOANS LEV, REC, BIG 4 and TURN as independent variables to provide incremental explanatory power to the earnings benchmark models. With the exception of Big 4 it is expected that these control variables will have a positive association with both loss avoidance and JMBE models.

3.9.6 Empirical Estimation Models for Reporting Quality Metrics

The estimated benchmark model for the overall industry, banks and insurance firms are presented in the model 1, 2 and 3 respectively.

$$EB_{it} = \beta_0 + \beta_1 IFRS_{it} + \beta_2 SIZE_{it} + \beta_3 GROWTH_{it} + \beta_4 LEV_{it} + \beta_5 CFO_{it} + \beta_6 ALLOW_{it} + \beta_7 BIG4_{it} + \beta_8 REC_{it} + \beta_9 RESERV_{it} + \beta_{10} EFF_{it} + \varepsilon_{it} \quad \text{.....eqn 1}$$

$$EB_{it} = \beta_0 + \beta_1 IFRS_{it} + \beta_2 SIZE_{it} + \beta_3 GROWTH_{it} + \beta_4 GLOANS_{it} + \beta_5 LEV_{it} + \beta_6 CFO_{it} + \beta_7 ALLOW_{it} + \beta_8 BIG4_{it} + \beta_9 EFF_{it} + \varepsilon_{it} \quad \text{.....eqn 2}$$

$$EB_{it} = \beta_0 + \beta_1 IFRS_{it} + \beta_2 SIZE_{it} + \beta_3 GROWTH_{it} + \beta_4 REC_{it} + \beta_5 LEV_{it} + \beta_6 CFO_{it} + \beta_7 ALCLAIMS_{it} + \beta_8 TURN_{it} + \beta_9 RESERV_{it} + \beta_9 BIG4_{it} + \varepsilon_{it} \quad \text{.....eqn 3}$$

3.9.7 Variable Definition and Measurement

Variable	Definition
$EB_{i.t}$	Earnings Benchmark represent either LOSS AVOID or JMBE. LOSS AVOID (LA) is a dummy variable coded as 1 if the ROA (Profit before taxes divided by total assets) of the firm is small between the interval 0 and .002 and zero otherwise. JMBE is a dummy variable, taking the value 1 if the change in ROA is within the range of 0 and 0.0005, zero otherwise.
$IFRS_{i.t}$	Dummy variable, that equals (1) if the institution report under IFRSs, and zero (0) otherwise.
$SIZE_{i,i}$	Natural logarithm of total assets
$GROWTH_{i,t}$	Change in total assets from the beginning to the end of the period scaled by total assets at the beginning of the year.
$GLOANS_{i,t}$	Gross loan balance divided by total assets at the beginning of the period
$LEV_{i,t}$	End of year total liabilities scaled by assets at the end of the period
$CFO_{i,t}$	Change in cash flows from operations from the beginning to the end of the period, scaled by total assets at the beginning of the period
$ALLOW_{i,t}$	Loan losses allowance at the end of the period, scaled by last year's total assets.
$BIG4_{i,t}$	Auditor type which equals1 if the current auditor is a BIG4 or 0 otherwise
$EFF_{i,t}$	Efficiency measured as ratio of total operating expense scaled by total revenue.
$\varepsilon_{i,t}$	Error term

	MODEL [2]
$REC_{i,t}$	Gross receivables at the end of the period divided by the total assets at the beginning of the period
$ALCLAIMS_{i,t}$	Measured as allowance for claims at the end of the period, scaled by total assets at the beginning of the period
$TURN_{t,1}$	Gross premiums scaled by total assets at the beginning of the period

3.10 Specification of Audit Fees Variables

3.10.1 IFRS

IFRS is a categorical variable taking the value 1 if the financial statement comply with IAS/IFRS and 0 for non-compliant. It expected that IFRS will have a positive association with audit fees.

3.10.2 Total Audit Fee

Total audit fee is a dependent variable in the third estimation model. This is computed as natural logarithm of total audit fees (FEE) in accordance with prior studies (Fields et al., 2004; Kanagaretnam et al., 2008; Marra, Mazzola, & Prencipe, 2011). The empirical model for this study is based on the analysis by (Fields et al., 2004). Specifically this model relates fees paid to the size, complexity, audit report lag, auditor type, listing status and the risk of the audit client, focusing on four types of risk: liquidity risk, operating risk, credit risk and capital risk. The following control variables is considered:

3.10.3 The Size of the Auditee's firm (SIZE)

Total assets of the client's company is used as a measure of the size of the client's firm. This is in line with prior literature on audit feed models (Cameran & Perotti, 2014; Fields et al., 2004; Simunic, 1980). The size of the firm is calculated as the natural logarithm of total assets. All things being equal, the larger the size of the bank or insurance company the higher the audit fee (Lin and Yen, 2009). The study therefore predict a positive coefficient on SIZE.

3.10.4 Risk associated with the auditee's operations

3.10.4.1 Liquidity Risk

Liquidity risk is measured using leverage and investment securities of the organization. Leverage (LEV) is calculated as the ratio of total liabilities at the end of the period divided by total assets. Investment securities (GOVSEC) as for liquidity risk indicator is computed as ratio of securities to total assets. Since LEV and GOVSEC represent liquidity risk, it is assumed that the higher the liquidity risk associated with the client business the higher the audit fee charged to compensate for the audit risk

3.10.4.2 Capital Risk

Capital risk is represented by the amount of general regulatory credit reserve captured as "RESERV" for general banking and insurance risks**.** Reserve for general banking and insurance risks (RESERV) – calculated total reserve for banking and insurance risks scaled by total assets at the beginning of the year. The study predicts a positive coefficient on RESERV.

3.10.4.3 Operating Risk

Efficiency ratio is widely used as a proxy for operating risk for financial institutions (Fields et al., 2004; Marra et al., 2011). Efficiency (EFF) ratio is defined as the ratio of total operating expense to total revenue. In the case of insurance industry efficiency is measured as total claims divided by gross premium. Efficiency is expected to associate negatively with the dependant variable (FEE).

3.10.4.4 Profitability Risk

Following prior studies the study employs the return on assets (ROA) and categorical variable LOSS as proxies for profitability risk. Loss (LOSS) is controlled for by introducing a categorical variable for firms with negative net income coded as 1 if company suffers loss and 0 otherwise. In line with Gul et al. (2003) ROA is measured as net operating income before tax

scaled by total assets from previous year. The study expect positive coefficient on both variables.

3.10.4.5 Credit Risk

Fields et al. (2004) describe credit risk as the primary risk faced by banks. Following Fields et al. (2004) credit risk (GLOANS) is computed as the ratio of gross loans and total assets at the beginning of the year. The study anticipate a positive relationship between gross loans and audit fees.

3.10.5 Complexity of the Client's Operations

In line with (Gul et al., 2003; Hay, Knechel, & Li, 2006; Simunic, 1980) and for the purpose of this study the complexity of client's operations is captured as REC calculated as the sum total of receivables scaled by total assets at the beginning of the period. Since high number of receivables present higher complexity for auditors, it is expected that receivables will be positively associated with the dependent variable audit fee

3.10.6 Audit Report Lag

Audit report lag as an engagement attribute is one of the primary determinant of the audit fees. In this study, audit report lag (ARL) is measured as the natural logarithm of the total number of days from the financial statements date to the date of the release of the audit report. This definition is consistent with related prior audit literature (Afify, 2009; Hay et al., 2006; Owusu-Ansah & Leventis, 2006). It is predicted that audit report lag will have a positive association with audit fees since audit fee is a function of effort and audit risk.

3.10.7 Type of Auditor (Big 4 versus non-Big 4 Audit Firms)

The study include a control for the potential effect of Big 4 international audit firms versus non-Big 4 auditors by introducing a categorical variable coded as 1 if the current year's

financial statement is audited by any of the Big 4 audit firms (Deloitte, Ernest & Young, KPMG and PWC) and 0 otherwise.

3.10.8 Listing Status

To control for the effects of listing status (LIST) on audit fees the study introduce a categorical measure captured as 1 for firms listed on the Ghana Stock Exchange (GSE) and 0 otherwise. This is consistent with recent study by Cameran & Perotti (2014). In line with (Griffin et al., 2007) LIST is expected to have a positive coefficient.

3.11 Audit Fee Model

Following the audit fee model by Fields et al. (2004), the study regress total fees to the size, complexity, audit report lag, Big4, listing status and the risk of the audit client which include liquidity risk, operating risk, credit risk and capital risk. The estimated audit fee model for the overall industry, banks and insurance firms respectively are as follows:

$$FEE_{it} = \beta_0 + \beta_1 IFRS_{it} + \beta_2 SIZE_{it} + \beta_3 ROA_{it} + \beta_4 LEV + \beta_5 RESERV_{it} + \beta_6 EFF_{it} + \beta_7 GOVSEC_{it} + \beta_8 REC_{it} + \beta_9 ARL_{it} + \beta_{10} BIG4_{it} + \beta_{11} LIST_{it} + \beta_{12} LOSS_{it} + \varepsilon_{it} \quad \text{.....eqn 4}$$

$$FEE_{it} = \beta_0 + \beta_1 IFRS_{it} + \beta_2 SIZE_{it} + \beta_3 EFF_{it} + \beta_4 GOVSEC + \beta_5 GLOANS_{it} + \beta_6 ARL_{it} + \beta_7 LOSS_{it} + \beta_8 ROA_{it} + \beta_9 LEV_{it} + \beta_{10} BIG4_{it} + \beta_{11} LIST_{it} + \beta_{12} RESERV_{it} + \beta_{13} REC_{it} + \varepsilon_{it} \quad \text{.....eqn 5}$$

$$FEE_{it} = \beta_0 + \beta_1 IFRS_{it} + \beta_2 SIZE_{it} + \beta_3 ARL_{it} + \beta_4 REC_{it} + \beta_5 LEV_{it} + \beta_6 ROA_{it} + \beta_7 LOSS_{it} + \beta_8 GOVSEC_{it} + \beta_9 RESERV_{it} + \beta_{10} BIG4_{it} + \beta_{11} LIST_{it} + \beta_{12} EFF_{it} + \varepsilon_{it} \quad \text{.....eqn 6}$$

3.12 The Association between Total Fees and Financial Reporting Quality

The examination of the nexus between audit fees and financial reporting quality has sparked two opposing views. One school of thought employs reporting quality as a dependent variable and audit fees as independent variable (Ashbaugh & Mayhew, 2003; Blankley et al., 2012; Chi et al., 2011; Frankel et al., 2002; Hoitash et al., 2007; Kanagaretnam et al., 2008). Other school of thought uses the audit fees as a dependent variable with financial reporting quality as an

explanatory variable (Bedard & Johnstone, 2004; Gul et al., 2003; Schelleman & Knechel, 2010).

To investigate the relation between financial reporting quality and audit fees, the study follows the approach by (Bedard & Johnstone, 2004; Gul et al., 2003) where audit fee is used as a dependent variable. Other firm specific variables have been selected in line with (Doyle & Mcvay, 2007) to control for the inherent difficulty that firms encounter in their attempt to estimate accruals. The models are estimated for the entire financial institution, banks and insurance companies respectively as follows:

$$FEES_{it} = \beta_0 + \beta_1 LA_{i,t} + \beta_2 JMBT_{i,t} + \beta_3 SIZE_{it} + \beta_4 EFF_{it} + \beta_5 LOSS_{i,t} + \varepsilon_{it} \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots [7$$

$$FEES_{it} = \beta_0 + \beta_1 LA_{i,t} + \beta_2 JMBT_{i,t} + \beta_3 SIZE_{it} + \beta_4 EFF_{it} + \beta_5 LOSS_{i,t} + \varepsilon_{it} \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots [8]$$

$$FEES_{it} = \beta_0 + \beta_1 LA_{i,t} + \beta_2 JMBT_{i,t} + \beta_3 SIZE_{it} + \beta_4 EFF_{it} + \beta_5 LOSS_{i,t} + \varepsilon_{it} \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots [9]$$

Variable	**Definition**
$LA_{i,t}$	An indicator variable equal to one (1) if the coefficient of the IFRS for the LOSS_AVOID from model [1] is negative (income increasing) and zero (0) otherwise.
$JMBT_{i,t}$	Dummy variable which takes the value one (1) if the coefficient of IFRS for JMBT from equation one [1] is negative (income increasing) and zero otherwise.
Others	All other variable definition and measurement remain unchanged.

3.13 Resolving Methodological Issues

3.13.1 The Problem of Multicollinearity

In statistics, multicollinearity refers to the situation where two or several of the control variables in a multiple regression model are closely correlated to one another. This indicates that several of the control variables are closely linked in some way. Therefore, multicollinearity is considered a disturbance that causes volatility in data. Multicollinearity can cause strange results when attempting to study how well individual independent variables contribute to an understanding of the dependant variable**.** In general, multicollinearity can result in wide confidence intervals and strange p- values for independent variables. The highest correlation results among the independents variables was observed under the audit fee model for banks as 0.82 This occurred between total audit fees (FEE) and SIZE. Under the reporting quality model the highest correlation occurred between GLONS and ALLOW at 0.71. In order to be sure of non-existence of multicollinearity among these variables, the variance inflation factor (VIF) was run. Vieru & Schadewitz (2010) postulate that VIF score of more than 10 pose serious threat of multicollinearity. The results from the VIF check shows a VIF score of less than ten (10) for all the independent variables. The highest VIF score was 3.8 which suggest no or insignificant multicollinearity among the dependant variables.

3.13.2 Normality

In order to reduce the effect of outliers and to ensure a normal distribution of the data set, the original values of most of the variables (e.g. REC, GLOANS, ALLOW) are scaled by total assets at the beginning of the period. Again natural logarithm function is applied on variables such as total audit fees (FEE), size of company (SIZE) and audit report lag (ARL). Six other variables were measured as categorical variables.

3.13.3 Hausman's Specification Test

The Hausman's specification test is conducted to know the appropriate regression model whether random effect or fixed effect models to use and also check for endogeneity of variable i.e. the presence of correlation between the error term and independent variables. The results of the Hausman specification test is displayed and analysed in chapter four.

3.13.4 Robustness Check

To check and correct for problem of autocorrelation and heteroskedasticity which could render the regression results spurious, a robust regression is conducted using the robust regression option in the STATA software. This is considered a useful option in dealing with the problem of autocorrelation and heteroskedasticity.

CHAPTER FOUR

DATA PRESENTATION AND DISCUSSIONS

4.1 Introduction

This section presents analysis of the data gathered and a discussion of the results and findings. The chapter consists of the descriptive analysis of the descriptive statistics of the data, correlation analysis and the presentation and discussion of the regression results and findings.

4.2 Descriptive Statistics of the Variables

Table 4.1, 4.2 and 4.3 below provide the descriptive statistics of primary variables used in the regression models of the overall financial institutions, banks and insurance firms respectively. The study result is based on total of 51 financial institutions made up of 23 universal banks and 28 insurance companies. All together, the samples consist of 530 firm-year observations covering a period of twelve (12) years from 2003 to 2014.

In the regression analysis with the exception of the variables "SIZE, FEE and ARL" which are computed as the natural logarithms of total assets of the firm, audit fee and audit report lags in days respectively, the rest of the variables are calculated as ratios. The variables with minimum and maximum values of 0 and 1 respectively are categorical variables.

Majority of our sample banks are audited by the Big 4 international audit firms. About 80 percent of the universal banks under study are affiliated with the Big 4 audit firms with the remaining banks audited by domestic audit firms. However, in the case of the insurance firms only 48 percent are being audited by the Big 4 audit firms with the remaining 52 percent spread across the non- Big 4 accounting firms. Altogether, the BIG4 accounting firms control about 64% overall financial institution. 25.85% of the sample firms are listed on the Ghana Stock Exchange. 35.4 percent of the sample banks are listed on the Ghana Stock Exchange as at 2014 compared to only 16 percent in the insurance industry. In terms of performance, the statistics

also reveal that the banking industry is much more profitable relative to the insurance industry as measured by the change in operating cash flows scaled by beginning total assets.

Although, the mean size of the sample banks is bigger compared to the insurance industry, the insurance industry witnessed a tremendous average growth rate of 52% as compared to the average growth rate of 43% in the banking sector. Overall, the financial institution experienced an average growth of 51% over the 12-year study period. The insurance industry also enjoyed a higher return on asset as compared to the banks evidenced by the mean ROA of 0.0325 verses 0.0446 for banks and insurance firms respectively. The efficiency ratio of 0.6207 in the banking sector indicates that about 62% of the net income of the banks goes into operating expenses. In similar vein, about 30% of the gross premium in the insurance sector is used to settle claims.

Table 4. 1: Summary Statistics - Overall Industry

Variable	Obs.	Mean	Std. Dev.	Min	Max
ROA	530	0.0385	0.1485	-2.20339	1.202
CHROA	530	0.0002	0.165	-2.033	1.0634
SIZE	530	7.8665	0.9086	5.334096	9.7536
GROWTH	530	0.5136	1.5355	-0.99068	18.556
GLOANS	250	0.7372	0.5515	0.031553	7.7286
LEV	529	0.7617	0.5352	0.001792	9.9346
CHCFO	528	0.0381	0.4662	-3.48448	5.7561
ALLOW	308	0.0779	0.1181	0.00051	1.0757
RESERV	530	0.0496	0.0948	-0.09709	1.0842
FEE	514	4.4785	0.5678	1.159507	6.7988
EFF	521	0.4589	0.4428	0.000169	7.7904
GOVSEC	512	0.2993	0.4243	0.000712	6.5707
REC	493	0.1605	0.4472	0.00016	8.0311
ARL	529	1.969	0.1951	1.39794	2.9238
IFRS	530	0.4698	0.4996	0	1
BIG4	530	0.6434	0.4794	0	1
LOSS	530	0.1623	0.369	0	1
LIST	530	0.2585	0.4382	0	1
LA	530	0.166	0.3725	0	1
JMBE	530	0.2849	0.4518	0	1

Source: Study result, 2016

Table 4.2 Summary Statistics for Banks

Variable	Obs.	Mean	Std. Dev.	Min	Max
ROA	265	0.0325	0.034749	-0.209	0.184003
CHROA	265	0.0039	0.03076	-0.211	0.151813
SIZE	265	8.5659	0.582188	6.9688	9.753555
GROWTH	265	0.4316	0.479574	-0.995	4.095244
GLOANS	250	0.7391	0.549955	0.0316	7.728569
LEV	265	0.8701	0.076726	0.0237	0.996927
CFO	259	0.055	0.538886	-3.484	5.75609
ALLOW	250	0.0589	0.091155	0.0005	1.048827
FEE	249	4.8049	0.471278	3.3979	6.798837
EFF	256	0.6207	0.500317	0.0009	7.790405
RESERV	257	0.1255	0.07125	0.0117	0.965724
GOVSEC	248	0.1967	0.179342	0.0014	2.247249
REC	237	0.0268	0.03985	0.0002	0.273232
GLOANS	252	0.2702	0.597947	-4.105	7.196284
ARL	209	1.8158	0.139009	1.3979	2.382017
IFRS	265	0.5811	0.494307	0	1
BIG4	265	0.8038	0.397893	0	1
LIST	265	0.3547	0.479333	0	1
LOSS	265	0.0679	0.252092	0	1
LA	265	0.1019	0.303072	0	1
JMBE	265	0.0868	0.282063	0	1

Source: Study result, 2016

Table 4.2: Summary Statistics for Insurance Firms

Variable	Obs.	Mean	Std. Dev	Min	Max
ROA	265	0.0446	0.2071	-2.203	1.202
CHROA	238	-0.013	0.2342	-2.033	1.0634
SIZE	265	7.1633	0.5751	5.3341	8.5097
GROWTH	265	0.5237	1.8085	-0.924	14.979
REC	256	0.2843	0.5936	0.0002	8.0311
LEV	264	0.6561	0.738	0.0018	9.9346
CFO	263	0.0221	0.3883	-3.063	3.7642
FEE	265	4.1719	0.4722	1.1595	5.1644
EFF	265	0.3026	0.3073	0.0002	3.0499
RESERV	259	0.0831	0.1243	0.0013	1.0842
GOVSEC	264	0.3964	0.5476	0.0007	6.5707
ARL	265	2.1126	0.1266	1.699	2.9238
ALCLAIMS	58	0.1607	0.1736	0.0013	1.0757
TURN	265	0.9939	1.3827	0.0348	13.176
IFRS	265	0.3585	0.4805	0	1
BIG4	265	0.483	0.5007	0	1
LOSS	265	0.2566	0.4376	0	1
LIST	265	0.1623	0.3694	0	1
LA	265	0.2302	0.4218	0	1
JMBE	265	0.483	0.5007	0	1

Source: Study result, 2016

Figure 4.1: IFRS Adoption by Banks

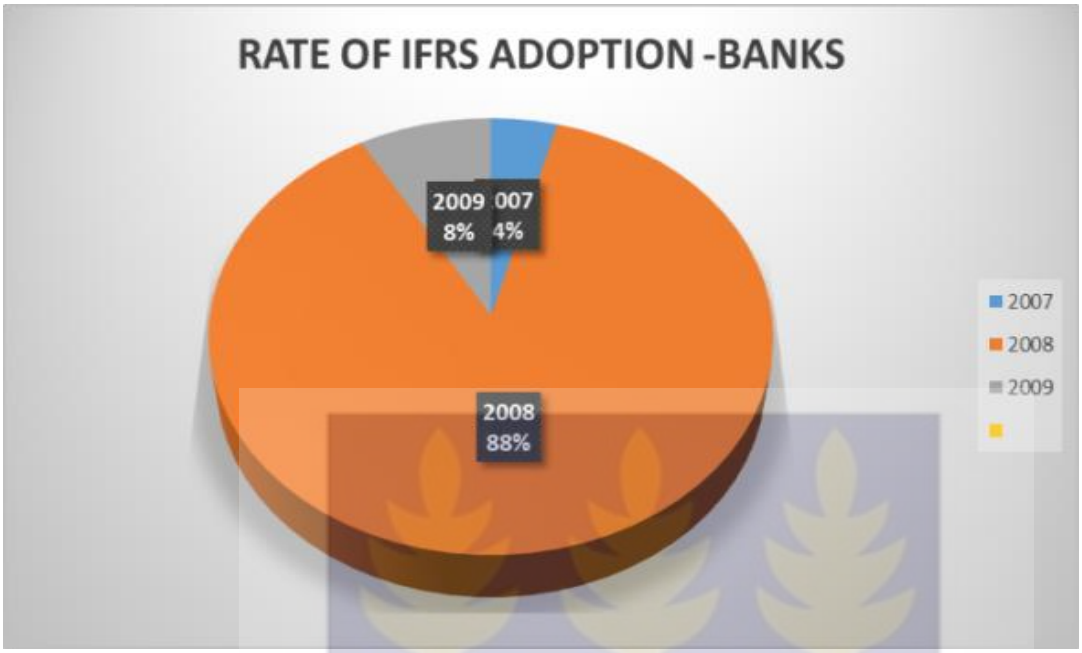


Figure 4.2: IFRS Adoption by Insurance Firms

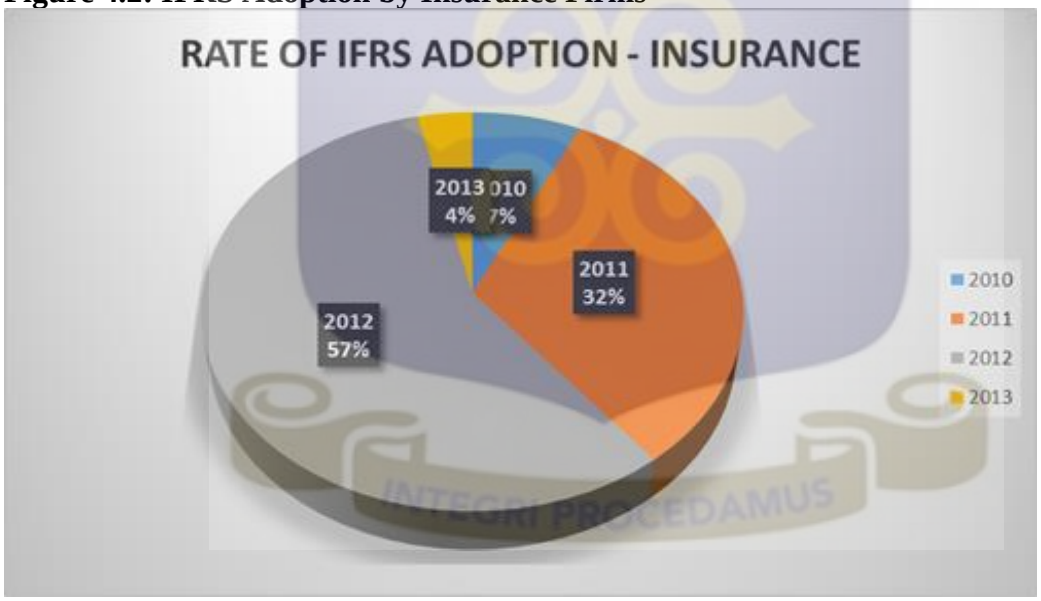


Figure 4.1 and 4.2 display the respective years the two industries adopted and implemented the IFRS in Ghana. Ghana, officially announced the launching of the country's adoption of IFRSs and the subsequent replacement of the national standard (GNASs) in January 2007. Companies listed on the GSE, government business enterprises, banks, insurance companies, security brokers, public utilities and pension funds all mandated to apply the IFRSs following the formal

endorsement. However, actual implementation was delayed due to several technical challenges.

The figure above shows that most of the banks complied with the new standard in 2008 (88%) despite the directive to comply in 2007. The case of the insurance industry was more pronounced as majority of the firms (32%, 57%) adopted and used the IFRS in 2011 and 2012 respectively.

4.3 Descriptive Analysis of Reporting Quality

This section provide analysis of data on financial reporting quality before and after IFRS adoption for the entire financial institution, banks and insurance industry.

4.3.1 Correlation Results on Reporting Quality

From table 4.4 below, the correlation matrix results for banks depict that the primary key variable; IFRS negatively correlated with the reporting quality matrix, Loss Avoidance (LA). Other control variables that are negatively correlated with the dependent variable include "the size of the firms (SIZE), gross loans, (G. LOANS), level of capital reserve (RESERV) and allowance for loan loss (ALLOW). These independent variables negatively correlated with the earnings management practices (loss avoidance) of managers of banks over the study period.

Table 4.3: Correlation Analysis for Reporting Quality Models (LA) – Banks

	LA	IFRS	SIZE	GROWTH	G. LOANS	RESERV	CFO	ALLOW	BIG 4	REC	EFF
LA	1										
IFRS	-0.0799	1									
SIZE	-0.2255	0.6879	1								
GROWTH	0.0863	-0.0568	-0.1149	1							
G. LOANS	-0.1104	-0.0405	-0.0388	0.3378	1						
RESERV	-0.0846	-0.1747	-0.1642	-0.0575	0.636	1					
CFO	0.1028	-0.0298	-0.0401	0.3492	0.5622	0.4928	1				
ALLOW	-0.073	-0.1253	-0.1172	0.0989	0.7218	0.6162	0.4415	1			
BIG 4	0.0346	0.2601	0.2302	0.0083	-0.0447	-0.0002	0.0109	-0.1014	1		
REC	0.0296	-0.2117	-0.2123	0.2221	0.3055	0.1194	0.0551	0.3844	-0.0854	1	
EFF	0.3478	0.0338	-0.0696	-0.0115	0.0002	-0.1906	-0.0183	-0.0131	-0.1569	0.0505	1

source: Study results 2016

However, growth in assets of banks (GROWTH), level of cash flow (CFO), amount of receivables (REC) and level of efficiency (EFF) positively correlated with the frequency of earnings management practices of managers of banks over the study period.

Contrary to expectations, the correlation of Big 4 international audit firms and the proxy for loss avoidance is positive though weak. The correlation matrix also show a strong positive correlation between G. LOANS and ALLOW which implies that the level of loan loss provision depended much on the amount of firm's gross loans.

Table 4.4: Pearson's correlation matrix for reporting quality (JMBE)-Banks

|	JMBE	IFRS	SIZE	GROWTH	G.LOAN	RESERV	CFO	ALLOW	BIG 4	REC	EFF
JMBE	1										
IFRS	-0.0169	1									
SIZE	-0.1251	0.6879	1								
GROWTH	-0.0123	-0.0568	-0.1149	1							
G. LOANS	-0.096	-0.0405	-0.0388	0.3378	1						
RESERV	-0.1399	-0.1747	-0.1642	-0.0575	0.636	1					
CFO	0.0654	-0.0298	-0.0401	0.3492	0.5622	0.4928	1				
ALLOW	-0.0611	-0.1253	-0.1172	0.0989	0.7218	0.6162	0.4415	1			
BIG 4	0.0088	0.2601	0.2302	0.0083	-0.0447	-0.0002	0.0109	-0.1014	1		
REC	-0.0021	-0.2117	-0.2123	0.2221	0.3055	0.1194	0.0551	0.3844	-0.085	1	
EFF	0.3695	0.0338	-0.0696	-0.0115	0.0002	-0.1906	-0.0183	-0.0131	-0.157	0.0505	1
Source: Study result 2016											

As expected, the key variable of interest, IFRS is negatively correlated with the dependent variable, JMBE. This seems to suggest that the adoption of the new standard has reduced the earnings management practices of managers over the period. Thus, the post-adoption era has seen a decline in the frequency of managers manipulating earnings to beat or meat certain target. SIZE, GROWTH, G. LOANS, RESERV ALLOW AND REC are all negatively correlated with the dependent variable. The presence of Big 4, CFO again correlated positively with the dependant variable.

Table 4.6 and 4.7 below displays the comparative correlation matrix for both loss avoidance and target beating variables for insurance firms. Results for the insurance industry is not significantly different from that of the banking industry.

Table 4.5: Pearson's correlation matrix for reporting quality (LA) – Insurance

	LA	SIZE	GROWTH	REC	LEV	CFO	ALCLAIM	BIG4	RESERV	IFRS	TURN
LA	1										
SIZE	-0.1143	1									
GROWTH	-0.0862	0.0916	1								
REC	-0.0657	-0.0877	0.5811	1							
LEV	-0.0084	-0.1555	-0.0789	0.0441	1						
CFO	0.0071	-0.0182	-0.0065	-0.0337	-0.0415	1					
ALCLAIMS	-0.158	-0.0865	0.1512	0.4331	0.0846	0.019	1				
BIG4	0.049	0.1121	0.0155	-0.1156	0.0396	0.0395	-0.0543	1			
RESERV	-0.1282	0.0122	-0.0123	0.0206	0.5383	-0.028	0.0798	0.0082	1		
IFRS	0.1855	0.4358	-0.0411	-0.1517	-0.0163	-0.0544	-0.0335	0.0648	-0.0406	1	
TURN	-0.1173	-0.1277	0.5588	0.5252	-0.0135	0.2183	0.2609	0.0117	0.0603	-0.098	1
Source: Study result 2016											

Table 4.6: Pearson's correlation matrix for reporting quality (JMBE)-Insurance

|	JMBE	SIZE	GROWTH	REC	LEV	CFO	ALCLAIM	BIG4	RESERV	IFRS	TURN
JMBE	1										
SIZE	0.074	1									
GROWTH	0.0948	0.0916	1								
REC	0.0923	-0.0877	0.5811	1							
LEV	-0.0912	-0.1555	-0.0789	0.0441	1						
CFO	-0.027	-0.0182	-0.0065	-0.0337	-0.0415	1					
ALCLAIMS	-0.02	-0.0865	0.1512	0.4331	0.0846	0.019	1				
BIG4	0.0757	0.1121	0.0155	-0.1156	0.0396	0.0395	-0.0543	1			
RESERV	-0.1123	0.0122	-0.0123	0.0206	0.5383	-0.028	0.0798	0.0082	1		
IFRS	0.1025	0.4358	-0.0411	-0.1517	-0.0163	-0.0544	-0.0335	0.0648	-0.0406	1	
TURN	0.0681	-0.1277	0.5588	0.5252	-0.0135	0.2183	0.2609	0.0117	0.0603	-0.098	1
Source: Study result 2016											

Table 4. 8 and 4. 9 below display the correlation results for the entire financial institution for both earnings management proxies. The correlation results shows a positive correlation for the main variable of interest (IFRS) with the dependant variable LA but negatively correlated with the JMBE. This seems to suggest that the introduction of IFRS appear to be more effective in reducing JMBE practices than in LA practices. The independent variables SIZE, LEV, ALLOW and BIG4 are all negatively correlated with both dependent variables with only REC showing positive correlation with both dependent variables. The regression results below provide more insight on the above subject.

Table 4.7: Pearson Correlation Matrix for Reporting Quality (LA) - Overall Industry

	LA	IFRS	SIZE	GROWTH	LEV	ALLOW	CHCFO	RESERV	REC	BIG4	EFF
LA	1										
IFRS	0.0316	1									
SIZE	-0.23	0.5351	1								
GROWTH	-0.05	-0.062	0.0025	1							
LEV	-0.045	0.04	0.0947	-0.095	1						
ALLOW	-0.14	-0.047	0.0208	0.1001	0.0904	1					
CHCFO	0.047	-0.03	0.009	0.0731	-0.016	0.2426	1				
RESERV	-0.052	-0.137	-0.255	-0.019	0.4152	0.0326	-0.0396	1			
REC	0.0008	-0.181	-0.27	0.4666	-0.017	0.2964	-0.0262	0.115	1		
BIG4	-0.017	0.2219	0.3477	-0.023	0.0911	-0.031	0.0332	-0.116	-0.177	1	
EFF	0.1479	0.164	0.2935	-0.011	0.1165	0.0305	-0.0166	-0.125	-0.139	0.02	1
Source: Study result, 2016											

Table 4. 8: Correlation Matrix for Reporting Quality (JMBE) - Overall Industry

	JMBE	IFRS	SIZE	GROWTH	LEV	ALLOW	CHCFO	RESERV	REC	BIG4	EFF
JMBE	1										
IFRS	-0.0636	1									
SIZE	-0.3468	0.5351	1								
GROWTH	0.0612	-0.0624	0.0025	1							
LEV	-0.1566	0.04	0.0947	-0.095	1						
ALLOW	-0.0787	-0.0466	0.0208	0.1001	0.0904	1					
CHCFO	-0.0055	-0.0302	0.009	0.0731	-0.016	0.2426	1				
RESERV	0.0558	-0.1369	-0.2547	-0.019	0.4152	0.0326	-0.04	1			
REC	0.1978	-0.1811	-0.2695	0.4666	-0.017	0.2964	-0.026	0.1148	1		
BIG4	-0.0959	0.2219	0.3477	-0.023	0.0911	-0.031	0.0332	-0.116	-0.177	1	
EFF	-0.0319	0.164	0.2935	-0.011	0.1165	0.0305	-0.017	-0.125	-0.139	0.02	1
Source: Study result, 2016											

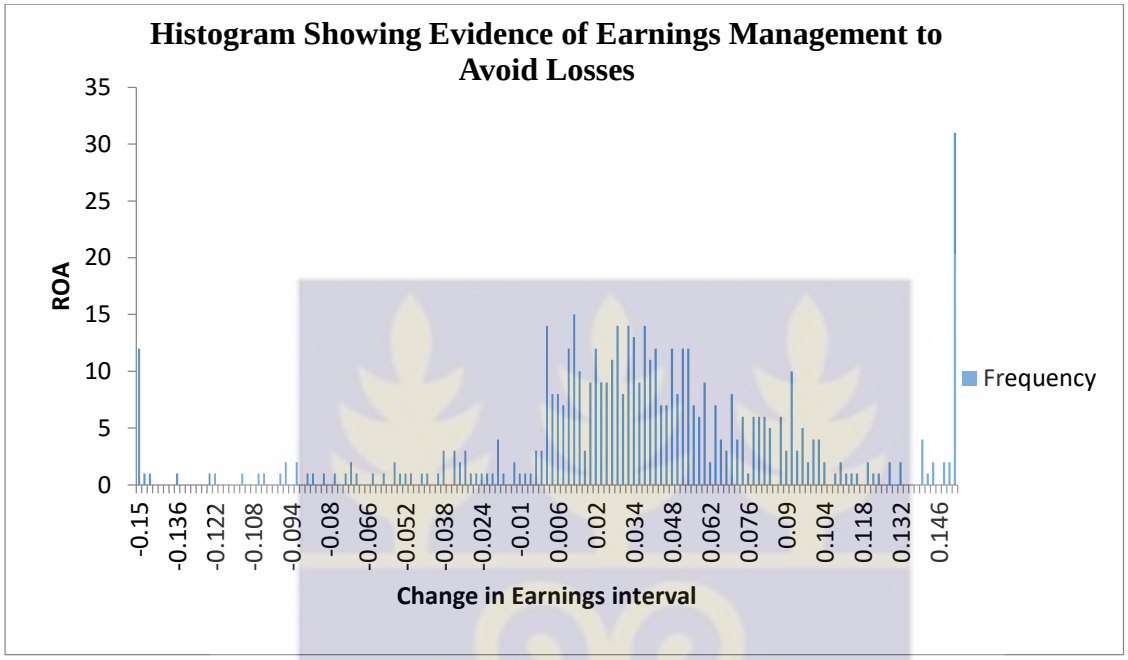
4.3.2 Empirical Results for Reporting Quality

This section presents empirical evidence on the effect of IFRS adoption on the two earnings management proxies (LA & JMBE) for the study.

Earnings management to avoid losses will be reflected in the form of unusually low frequencies of small losses and unusually high frequencies of small positive earnings. Similary, earnings management to avoid earnings decreases is likely to be reflected in cross-sectional distribution of earnings changes in the form of

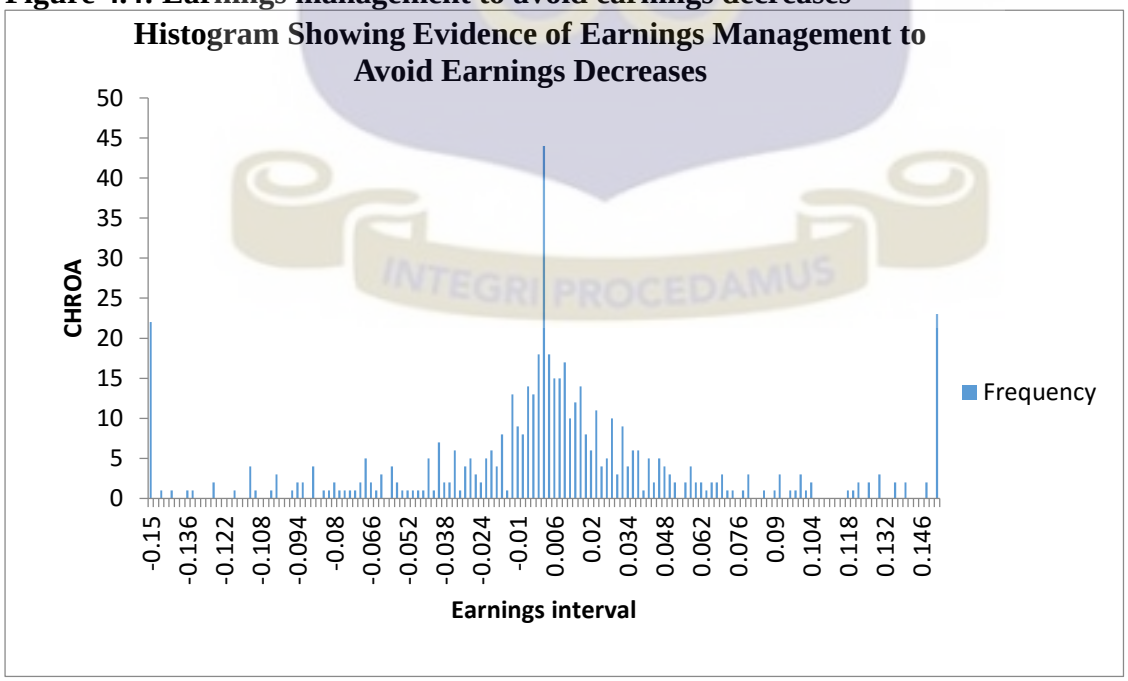
unusually low frequencies of small decreases and unusually high frequencies of small earnings increases. (Burgstahler & Dichev, 1997,p.4)

Figure 4.3: Earnings management to avoid losses



Source: Study result, 2016

Figure 4.4: Earnings management to avoid earnings decreases



Source: Study result, 2016

In a normal distribution where earnings are unmanaged, it is expected that the cross sectional distribution of earnings and earnings changes levels will be relatively smooth.

Figure 4.3 and 4.4 present a histogram of the scaled earnings and earnings change variable with histogram interval widths of 0.002 for the range of -0.15 to +0.15. The figures show a bell-shaped distribution with an irregularity near zero. The study find that there is more concentration of cases just above zero while there are fewer than expected cases of small losses. In both cases the frequency of observation above zero is unusually higher relative to the frequencies of losses.

These results suggest that firms whose earnings are expected to fall below the zero earnings point or experience earnings decrease engage in earnings management to help them cross the "red line" for the year. This observation is consistent with earnings management to avoid losses or earnings decreases first discovered by Burgstahler & Dichev (1997) and other subsequent studies on banks (e.g. Shen and Chih, 2005). The study attribute this benchmark beating behaviour to strong incentive by management to maintain a consistent pattern of earnings increases which tend to command higher sock price premium. This findings support the argument by Beathy et al. (2002); Burgstahler and Dichev (1997) that management smooth earnings to avoid losses or earning decreases; a situation which could result in 14% decline in stock prices.

4.3.3.1 Logit Regression Results for Loss Avoidance and JMBE - Banks

In making a decision to use either the fixed effects model or random effects model as the more appropriate for the data, the Hausman specification test is conducted. The following hypothesis is developed.

H0: Random effect model is appropriate

Ha: Fixed-effect model is appropriate

Criteria for selection is that the Fixed-effect model will be chosen if the p-value from the Hausman specification test is significant, and Random-effect model otherwise.

The table below present the results from the Hausman's specification test

Table 4.9: Hausman's specification Test

Hausman's Specification test for Banks					
	Coefficients				
	(b)	(B)	(b-B)	sqrt(diag(V_b-V_B))	
	R	F	Difference	S.E.	
SIZE	-2.22951	-3.91041	1.680898	.	
GROWTH	0.438309	0.199063	0.239245	0.234975	
GLOANS	-1.71062	-0.78039	-0.93023	.	
LEV	-1.17543	-3.76819	2.592757	.	
CFO	0.839793	1.383661	-0.54387	.	
ALLOW	-7.81839	-20.926	13.10756	.	
IFRS	1.195851	2.623916	-1.42807	.	
BIG 4	2.100677	2.766533	-0.66586	.	
EFF	6.778803	6.684605	0.094198	.	
chi2(9)	=	(b-B)'[(V_b-V_B)^(-1)](b-B)			
=	287.73				
Prob>chi2	=	**0.000.**			
(V_b-V_B	is	not	positive	definite)	
Source: Study result, 2016					

The Hauseman specification results above shows a very high significant p-value of 0.000 which implies that we reject the null hypothesis and settle on the Fixed-effect as the more suitable model to be used for this objective.

Table 4.11 below shows the logit regression estimation results for the loss avoidance (LA) and Just-meeting or beating prior year's earnings (JMBE) models based on fixed effect model. The results for LA and the JMBE are presented in column 1 and 2 respectively. The reported Wald chi-square values of 50.34 and 43 and their respective p-values of 0.000 for both models signify that the models are fit for the data. This values suggest the overall significance of the joint incremental explanatory powers of all the independent variables to the model thereby reducing

the unexplained variance. Prior studies have reported Wald chi-square values of 14.18 and 67.60 for LA and JMBE respectively (Cameran et al., 2014).

Table 4.10: IFRS and reporting quality-Banks

IFRS AND REPORTING QUALITY - BANKS				
Logit model with firm fixed effect				
	Column	1	Column 2	
Number of obs.		122		98
Chi2(9)		50.34		43
Chi2 prob.		0.0000.		0.0000.
	LA		JMBE	
	Coef.	z - Stat	Coef.	z -Stat
IFRS	2.623916	1.57	3.51182*	1.83
SIZE	-3.910407**	-2.03	-5.466655**	-2.37
GROWHT	0.1990632	0.29	-2.324944**	-2.05
GLOANS	-0.7803939	-0.47	0.9868374	0.58
LEV	-3.768185	-0.59	8.592742	2.07
ΔCFO	1.383661	1.36	2.551264**	2.14
ALLOW	-20.92595	-1.26	-21.2103	-1.51
BIG4	2.766533	1.85	2.485634	1.61
EFF	6.684605**	2.91	4.833386**	2.67
Source: Study result, 2016				
Note: ***, **, *. Represent statistical significance at the 1%, 5% and 10% respectvely				

As predicted, the coefficients for the primary variable of interest, IFRS for both models are positive although insignificant. This result support the null hypothesis that the adoption of IFRS affects reporting quality of financial institutions in Ghana. The positive coefficient of the IFRS indicate lower earnings management after switching from the local GAAP, Ghana National Accounting Standard to the new standard (IFRS) which suggest an improvement in the quality of reporting among the two industries. This suggest that the benchmark beating behaviour of managers of financial institutions in Ghana declined, albeit insignificant during the post adoption period. However, the insignificant coefficient indicate that the improvement in reporting quality is not limited to the IFRS adoption. This findings is consistent with the argument by (Barth, Landsman, & Lang, 2008) that IFRS compliant firms generally exhibit less earnings management and support the widely acclaimed view that IFRS is associated with

superior quality of financial reporting (Gebhardt & Novotny-farkas, 2010; Manganaris, Spathis, & Dasilas, 2015)

From the perspective of agency theory, the adoption of IFRS as a corporate control mechanism intended to restrain the opportunistic behaviour of managers and reduce the problem of information asymmetry through quality reporting, has been achieved to some extent.

Regarding the control variables, with the exception of EFF and SIZE which are significant at 5 percent levels for LA and JMBE, almost all the coefficients of the control variables for LA are insignificant. However, this result is not surprising in the light of prior literature (see Cameran et al., 2014; Kanagaretnam, Yeow, & Lobo, 2010). Contrary to expectations, the coefficient of SIZE is negatively associated with both loss avoidance and JMBE. This indicate that the frequency of managing earnings to avoid losses or just to beat target is not associated with the size of the institution as predicted. This result is consistent with earlier studies.(Kanagaretnam et al., 2010) but contradict with (Beathy et al., 2002).

With the exception of GROWTH, which is negatively associated with JMBE, CFO, BIG4 and EFF are all positively associated with both dependent variables. The negative coefficient of GROWTH for JMBE though unexpected is in line with prior literature (Altamuro & Beatty, 2010; Hail & Leuz, 2006). The positive coefficient of the CFO suggest that the frequency of loss avoidance is associated with the level of cash flows of the banks. The positive association of CFO is also consistent with (Burgstahler & Dichev, 1997; Beathy et al., 2002). Surprisingly, the coefficient of BIG 4 is insignificant but positively associated with the both loss avoidance and JMBE. This suggest that the presence of the international audit firms could not limit the frequency of benchmark beating activities of the banks. This observation is contrary to the findings by (Cameran et al., 2014; Kanagaretnam et al., 2008). GLOANS and LEV are both negatively associated with the frequency of loss avoidance but positively associated with JMBE. This observation is in line with (Cameran et al., 2014; Kanagaretnam et al., 2008) for

loss avoidance and (Altamuro & Beatty, 2010; Hail & Leuz, 2006) for JMBE. Against prediction, the coefficient for ALLOW is both negative for both dependent variables which suggest that allowance for loan losses cannot be associated with earnings benchmark practices in the banks . This observation is supported by (Kanagaretnam et al., 2008) but contrary to the results by (Cameran et al., 2014). The new predictor variable "EFF" introduced into the model shows a significant positive association with both models at 5 percent level which seems to suggest that the level of efficiency of the banks to some extent account for the frequency of benchmark beating behaviours.

4.3.3.2 Logit Regression results for Loss Avoidance and JMBE – Insurance

Table 4.11: IFRS and reporting quality-Insurance

IFRS AND REPORTING QUALITY – INSURANACE FIRMS				
Logit model with random effect				
	Column 1		Column 2	
Number of obs.		**261**		**261**
Chi2(10)		**25.52**		**10.88**
Chi2 prob.		**0.004**		**0.3672**
	LA		**JMBE**	
	Coef.	**z-Stat**	**Coef.**	**z-Stat**
IFRS	1.850583***	3.99	0.5319016*	1.74
SIZE	-1.295092**	-2.92	0.0912081	0.35
GROWTH	-0.1818799	-0.52	-0.0037058	-0.03
REC	0.5085887	0.56	0.803043	1.64
LEV	-0.0316052	-0.05	-0.4696322	-1.08
CFO	0.4073869	0.9	-0.2095077	-0.59
ALCLAIMS	-17.60114	-2.41	-1.203515	-0.84
BIG4	0.3995416	0.88	0.3405333	1.31
RESERV	-4.286097	-1.18	-2.216894	-1.39
TURN	-1.196884**	-2.06	0.0864288	0.65
_cons	8.308161**	2.56	-0.8439511	-0.43

Source: Study result, 2016

Note: *, **,* represent statistical significance at the 1%, 5%, and 10% respectively.**

Table 4.12 present the logit regression result for lost avoidance and JMBE for column one and two respectively for the insurance industry. The coefficient for the key variable, IFRS is

positive at a very high statistical significance, p-value of 0.000 for LA and at 10 percent for JMBE. This observation is consistent with the null hypothesis that the adoption of IFRS affect the financial reporting quality in the financial institutions in Ghana cannot be rejected. The high significant level of the coefficient of IFRS indicate that the improvement in the reporting quality among the insurance industry can be associated or explained by the transition to the new accounting standard.

Thus, the level of earnings management through frequency of small positive net income declined significantly after IFRS adoption. This observation is in line with prior literature (see (Barth et al., 2008a). The coefficient for the primary variable for JMBE is also positive and significant. The coefficient of majority of the predictors for JMBE (SIZE, GROWTH, REC, EFF and BIG4) is positive although insignificant, suggesting that the frequency at which insurance managers smooth earnings through JMBE could partly be explained by the changes in these variables.

This outcome is in line with expectations and empirical literature (Altamuro & Beatty, 2010; Cameran et al., 2014; Kanagaretnam et al., 2008). The significant coefficient of the independent variable TURN suggest that a unit increase in gross premium in an insurance firm will lead to 1.19688 decline in loss avoidance all things being equal. Generally, the improvement in the frequency of earnings management through benchmark beating is driven by the adoption of the new standard (IFRS), SIZE and level of gross premium (TURN).

4.3.3.3 Logit Regression results for Loss Avoidance and JMBE – Overall Financial Institution

Table 4.12: IFRS and Reporting Quality - Overall Institution

IFRS and Reporting Quality - Overall Institution					
Logit model with fixed effect					
Column 1 - LA			**Column 2 - JMBE**		
Number	of obs.	307		360	
Wald	chi2(10)	60.59		28.02	
chi2	Prob	0.000.		0.0018	
	Coef.	**z - Stat**	**Coef.**	**z - Stat**	
IFRS	1.3172**	2.48	0.3604	1.01	
SIZE	-1.2807**	-2	-0.1447	-0.33	
GROWTH	-0.4828	-1.2	0.0256	0.24	
LEV	-1.0916	-1.16	-0.9151*	-1.66	
ALLOW	-21.703***	-3.06	-2.9329	-1.57	
CHCFO	2.1215***	3.07	0.0795	0.27	
RESERV	-3.7069	-0.72	-3.3398*	-1.68	
REC	-1.418	-1.12	0.7365	1.48	
BIG4	0.9247	0.86	0.8327	1.23	
EFF	3.0245***	3.81	1.1285**	2.5	
Source: Study result, 2016					
Note: *. **, * represent statistical significance at 1%, 5% and 10% respectively**					

Table 4.13 above displays the effect of IFRS adoption on earnings management practices of managers of financial institution in Ghana. The results indicate an overall positive coefficient for the primary variable of interest IFRS. This indicate that on the whole, earnings management practices among the financial institution in Ghana has declined significantly following the adoption of IFRS. This suggest an overall improvement in the financial reporting quality among banks and insurance companies in Ghana.

4.4 Descriptive Analysis of Audit fees

This section presents analysis of data on audit fee before and after the IFRS adoption period for both banks and insurance industries. Table 4.14 and 4.15 below present the correlation matrix of audit fee and other control variables on the entire financial institution, banks and insurance industry respectively.

4.4.1 The Correlation Results

Table 4.13: Correlation Matrix for Audit Fee Model – Overall Industry

|	FEE	IFRS	SIZE	ROA	LEV	RESERV	EFF	GOVSEC	ARL	REC	BIG4	LOSS	LIST
FEE	1												
IFRS	0.5754	1											
SIZE	0.8217	0.554	1										
ROA	0.0002	-0.099	0.0008	1									
LEV	0.0936	0.0605	0.082	0.0998	1								
RESERV	-0.1162	-0.1475	-0.2594	0.2208	0.4195	1							
EFF	0.2242	0.1806	0.2846	-0.093	0.1098	-0.122	1						
GOVSEC	-0.1635	-0.1103	-0.2345	0.2825	0.0337	0.1599	-0.0812	1					
ARL	-0.4673	-0.16	-0.6166	-0.038	-0.081	0.2814	-0.1196	0.1067	1				
REC	-0.2071	-0.1883	-0.2704	0.0747	-0.019	0.1148	-0.1406	-0.0114	0.2465	1			
BIG4	0.3774	0.2101	0.3691	0.0065	0.0834	-0.113	0.0204	-0.0201	-0.3699	-0.1831	1		
LOSS	-0.1334	-0.0294	-0.2993	-0.32	0.0709	0.1203	0.1372	0.0423	0.2976	0.0276	-0.0323	1	
LIST	0.3563	0.1262	0.3912	0.0789	-0.042	-0.055	-0.0187	0.0075	-0.3851	-0.133	0.327	-0.2056	1
Source: Study result, 2016													

Table 4.14: Correlation Analysis for Audit Fee Models-Banks

|	FEE	IFRS	SIZE	ARL	GLOAN	EFF	LEV	ROA	LOSS	GOVSEC	RESERV	BIG4	LIST	REC
FEE	1													
IFRS	0.587	1												
SIZE	0.8131	0.6322	1											
ARL	-0.0178	0.2246	-0.036	1										
GLOANS	-0.1641	-0.2054	-0.2121	0.0623	1									
EFF	-0.0377	0.0345	-0.0996	0.3195	-0.003	1								
LEV	-0.2688	-0.181	-0.1451	0.1378	0.1743	0.1171	1							
ROA	0.2764	0.0105	0.3339	-0.318	-0.123	-0.4552	-0.2847	1						
LOSS	-0.0822	-0.0249	-0.1687	0.1146	0.0192	0.4839	0.1705	-0.5294	1					
GOVSEC	-0.028	-0.1882	-0.1229	0.0663	0.6508	-0.0586	0.0567	-0.0004	-0.0187	1				
RESERV	0.0427	-0.0828	-0.0197	-0.045	0.7867	-0.1547	-0.0734	0.2006	-0.1555	0.6988	1			
BIG4	0.2618	0.2212	0.2992	-0.01	-0.028	-0.1842	-0.158	0.1946	-0.0267	0.1339	0.0057	1		
LIST	0.1907	-0.0011	0.2364	-0.345	-0.117	-0.1093	-0.0631	0.2806	-0.1681	-0.0837	0.0703	0.1322	1	
REC	-0.2253	-0.1986	-0.2035	0.0791	0.1254	0.1164	0.1166	0.0126	0.1952	-0.1146	-0.0343	-0.0377	-0.1722	1

Table 4.15: Pearson's correlation matrix for Audit fees Model-Insurance

|	FEE	IFRS	SIZE	ROA	EFF	ARL	BIG4	LOSS	GOVSEC	LEV	REC	LIST	RESERV
FEE	1												
IFRS	0.417	1											
SIZE	0.6626	0.4345	1										
ROA	0.0063	-0.0884	-0.0328	1									
EFF	0.1728	0.1864	0.1671	-0.071	1								
ARL	-0.102	-0.0209	-0.1441	-0.054	0.1139	1							
BIG4	0.2243	0.0739	0.1237	-0.076	-0.0577	-0.2797	1						
LOSS	0.1169	0.1051	-0.1194	-0.366	0.2025	0.1894	0.1184	1					
GOVSEC	-0.0271	0.0452	-0.0485	0.2381	0.077	-0.0582	0.0082	0.0024	1				
LEV	-0.0275	-0.0102	-0.1703	0.2806	0.0808	0.0833	0.0463	0.1242	0.1731	1			
REC	-0.056	-0.1435	-0.0944	0.0859	-0.0957	0.0563	-0.1069	-0.068	-0.093	0.0341	1		
LIST	0.3551	0.0703	0.4965	0.0488	-0.0833	-0.2871	0.4062	-0.146	0.0465	-0.128	-0.0939	1	
RESERV	0.1475	-0.0433	-0.0085	0.2923	-0.0487	0.0646	0.017	0.0516	0.1768	0.5375	0.0155	0.029	
Source: Study result, 2016													

As reported in table 4.14 - 4.16 above, the study find that the primary experimental variable, IFRS is positively and significantly correlated with the dependant variable (FEE) for both banks and insurance firms, which means that the adoption of IFRS require more attention from auditors resulting in higher cost of audit over the period. This findings endorse the h previous findings from prior literature on audit fee (e.g. Risheh, 2014).

The correlation matrix for both industries show that majority of the independent variables (e. g. SIZE, ROA, RESERV, BIG 4, LIST) are positively correlated with the dependant variable, which indicate that the independent variables are able to explain the change in the audit fee for the industries. ARL, GOVSEC and REC were negatively correlated with audit fee for all the industries.

4.4.2.1 Summary Statistics for Audit Fees

Table 4.17 and 4.18 below shows the summary statistics of audit fee in GH₵ and other variables for the entire industry, banks and insurance industries respectively. Figure 4. 3, 4.4 and 4.5 further display interesting revelations on the above subject.

Table 4.16: Summary of Statistics for Audit Fees

	SUMMARY STATISTICS FOR AUDIT FEES (GH₵)								
	ENTIRE PERIOD			PRE-IFRS PERIOD			POST-IFRS PERIOD		
INDUSTRY	MEAN	MIN	MAX	MEAN	MIN	MAX	MEAN	MIN	MAX
ENTIRE INDUSTRY	62509	800	931000	20704	800	107500	107495	1000	931,000
BANKS	104322	2500	931000	30694	2500	107500	151081	1800	931000
INSURANCE FIRMS	23220	800	146021	15147	800	60000	37751	1000	146021
Source: Study result, 2016									

The statistics from table 4.17 above shows evidence of an overall increase in audit fee in both industries. The entire industry witnessed an average of 419% increase in audit fees after IFRS adoption. Particularly, the banking industry witnessed a mean increase in audit fee from GH₵30,694 to GH₵151,081 representing about 392% percent compared to about 149%

percent increase during the post adoption era in the insurance sector i.e. from GH₵15,147 to GH₵37,757.On the average the banking industry pay a higher audit fee relative to the insurance industry as evidenced in the mean audit fee of GH₵104,322 against a mean audit fee of GH₵23,220 in the insurance industry. Thus, more than 4 times the amount paid by the insurance firms. The differences in the mean audit fees between the two sectors could be attributed among other factors to mean size of the total assets of the two sectors. This is in line with literature (Cameran & Perotti, 2014; Fields et al., 2004; Simunic, 1980). The study also attributed the audit fee variations between the two sectors to the complexity associated with the audit of banks due to their relatively wider geographically dispersed operational units or branches (Griffin et al., 2009). Kanagaretnam, Krishnan, & Lobo, 2008) in support of this argument also found that auditing banks in general is challenging to auditors due to high levels of loan loss allowance and the related loan loss provisions. The figures below further display the trend and variations in audit fees over the 12-year study period.

Figure 4.5: Average Audit Fees for the Overall Industry

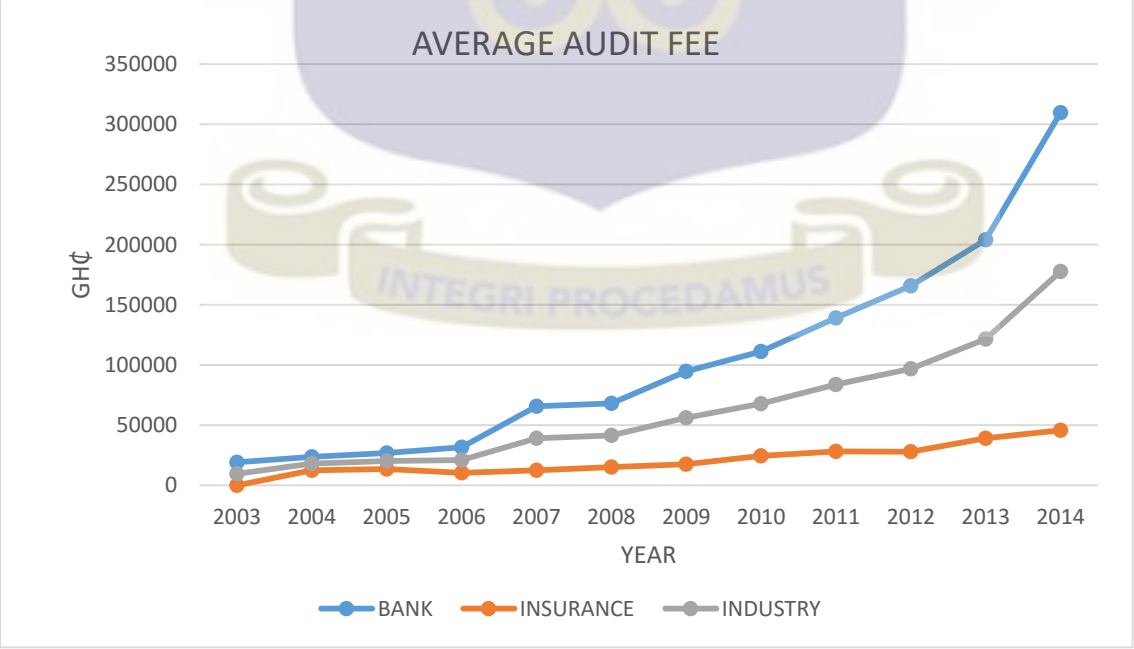


Figure 4.6: Bar Chart showing Average Audit Fee

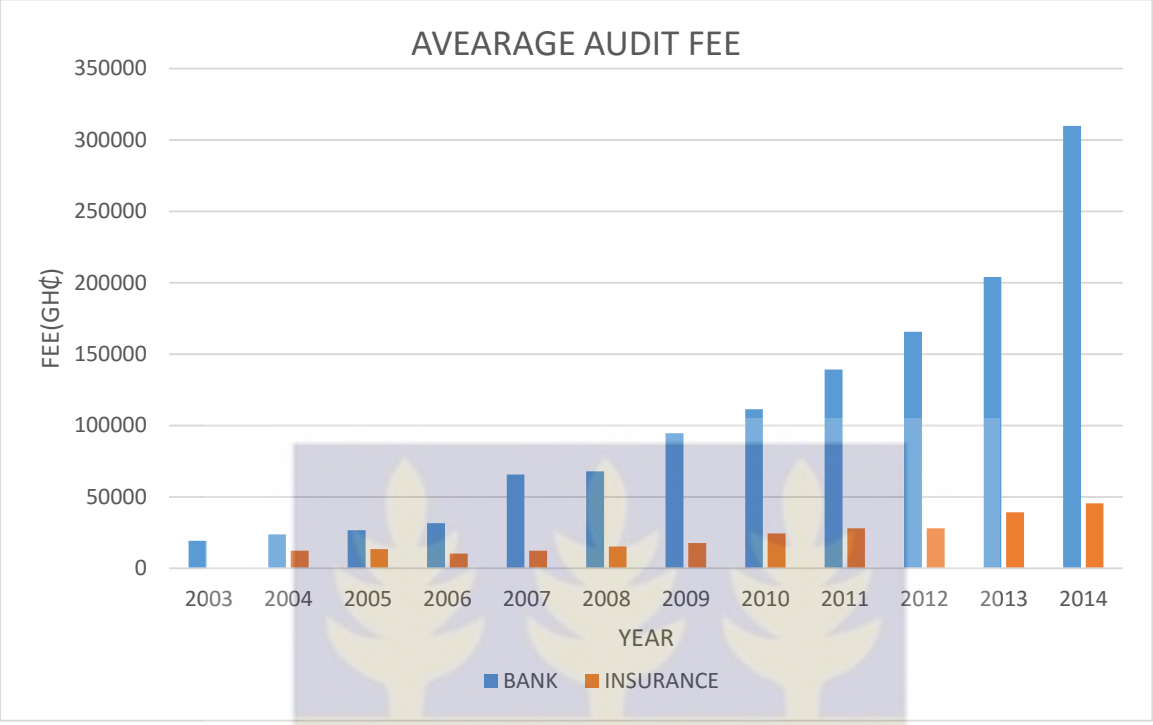


Figure 4.5and 4.6 above shed more light on the average growth rate of audit fee in GH₵ for the two industries over the study period. The banking industry witnessed a sharp increase in year 2007 when 8% of the banks were hooked to the new standard. Overall, the banking industry has seen much sharper growth in audit fee over the study period compared to the relatively steady growth rate in the insurance industry. Figure 4.7and 4. 8 further reveal the trend in annual minimum and maximum audit fee over the study period.

Figure 4.7: Annual Minimum Audit Fee

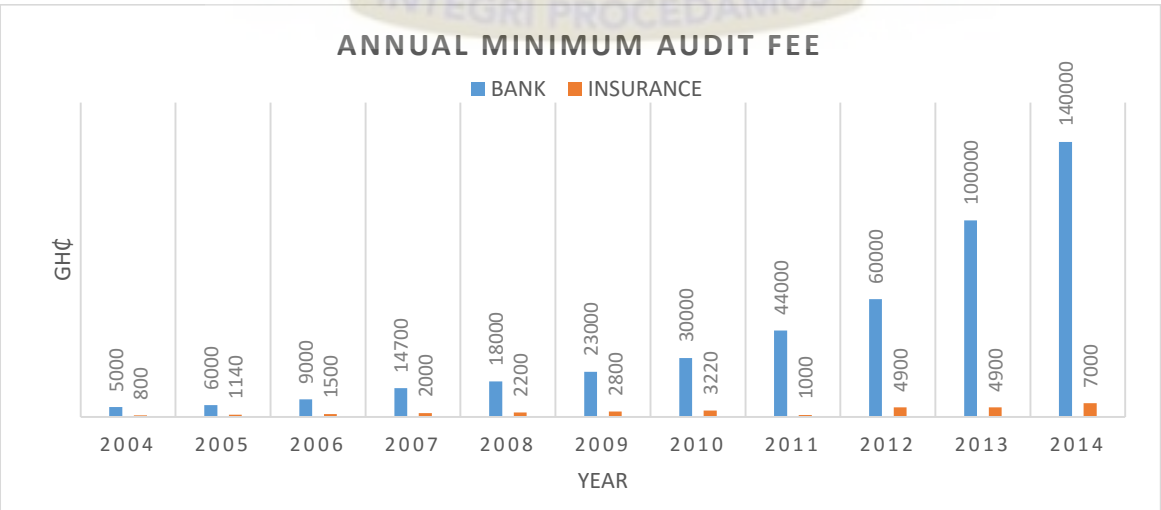
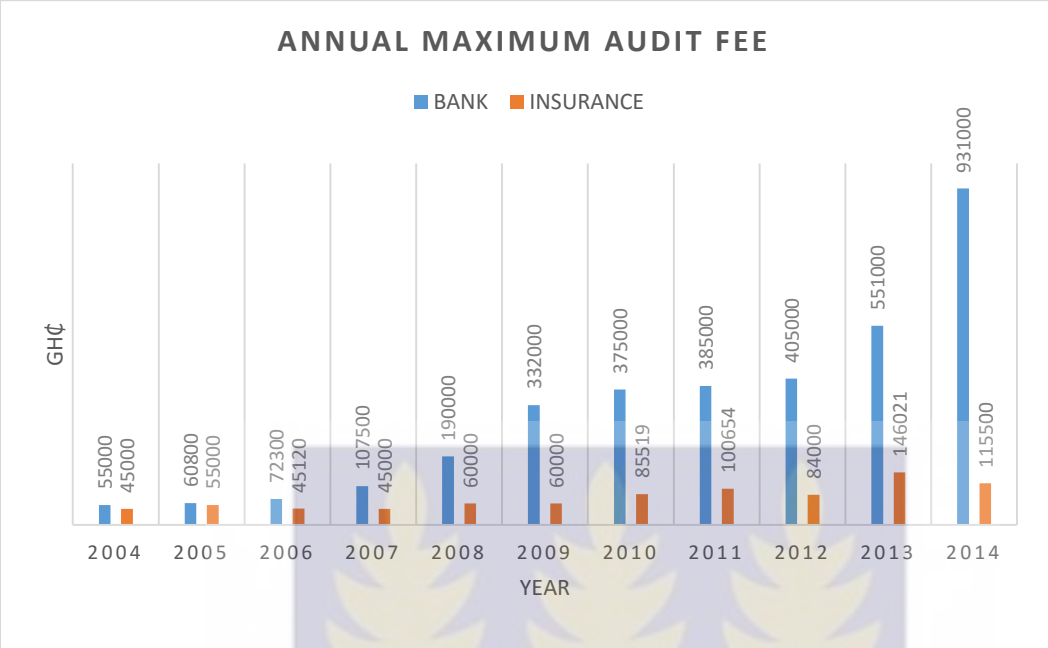


Figure 4.8: Annual Maximum Audit Fee



4.4.2.2 Auditor Type, Listing Status and Audit Fee

Table 4.18 provide further statistical evidence of trend and variations in audit fee for the entire financial institution, the banking sector and the insurance industry with respect to auditor type and listing status.

Table 4.17: Audit Fee, Auditor Type and Listing Status

PANEL A - AUDIT FEE AND AUDITOR TYPE										
		ENTIRE INDUSTRY			BANKS			INSURANCE FIRMS		
TYPE	Variable	Mean	Min	Max	Mean	Min	Max	Mean	Min	Max
NON-BIG4	FEE	26356	800	241069	54462	2500	241069	16435	800	78000
BIG4	FEE	83445	2000	931000	117807	6000	931000	30560	2000	146021
Source: Study result, 2016										
PANEL B - AUDIT FEE AND LISTING STATUS										
		ENTIRE INDUSTRY			BANKS			INSURANCE FIRMS		
STATUS	Variable	Mean	Min	Max	Mean	Min	Max	Mean	Min	Max
NON-LISTED	FEE	51508	800	931000	96842	2500	931000	19037	800	100000
LISTED	FEE	94025	5000	571000	117536	10000	571000	44814	5000	146021
Source: Study result, 2016										

The argument that the Big 4 audit firms are mostly associated with higher audit fees has been strongly supported by several researchers (Cameran & Perotti, 2014; Cameran, 2005; Choi

&Yoon, 2014; Risheh, 2014; VSchadewitz and Vieru, 2008). Some studies have attributed this gap in audit fees between the Big 4 and Non-Big 4 to the monopolistic power of the Big 4 or as a result of their reputation (goodwill) enjoyed by this international audit firms (Cameran, 2005). Other researchers ascribe this variations largely to superior quality service offered by the Big 4. (Choi & Yoon, 2014; Francis & Stokes, 1986; VSchadewitz and Vieru, 2008).

This study provide evidence to confirm this widely held view that Big 4 audit firms charge much higher fee relative to the non-Big 4 and local audit firms. The study result indicate that the Big 4 international accounting firms charge more than three times the amount charged by non – Big4 audit firms. The study attribute this variation in fees among other things to the perceived superior quality of service and reputation enjoyed by the Big 4 audit firms in Ghana. The table depicts that the maximum audit fee charged by the non-Big 4 during the period under study in the banking sector is GH₵241,069 as compared to maximum of GH₵931,000 charged by the Big 4 in the same banking sector. This is almost 4 times the amount charged by the local audit firms. Similar situation is seen in the insurance industry where the maximum fees charged are GH₵78,000 and GH₵146,021 for non-Big 4 and Big 4 firms respectively.

Panel B of table 4.18 above displays the variations in audit fee between listed and non-listed firms. The results above indicate that listed firms in the financial institutions in Ghana pay an average of GH₵ 42,517 higher in audit fees than their non-listed counterparts. In the banking industry, a listed firm pays an average fee of GH₵117,536 and a minimum of GH₵10,000 compared to an average audit fee of GH₵96,842 and a minimum of GH₵2500 if the bank is non-listed. The case of insurance industry is not different. On the average, a listed insurance firm pays GH₵44,814 for an audit service whiles a non- listed firm pays GH₵19,037. This observation reinforces the argument that listed firms pay relatively, higher audit fees because

they are required by regulation to meet certain level of disclosures which require extra audit effort from auditors (Cameran & Perotti, 2014).

4.4.3.1 Analysis on Audit Report Lag (ARL)

Table 4.19 Audit Report Lag and Audit Firm Growth

PANEL A:	SUMMARY STATISTICS FOR AUDIT REPORT LAG (DAYS)								
	ENTIRE PERIOD			PRE-IFRS PERIOD			POST-IFRS PERIOD		
INDUSTRY	MEAN	MIN	MAX	MEAN	MIN	MAX	MEAN	MIN	MAX
ENTIRE INDUSTRY	102	25	301	108	25	301	95	25	258
BANKS	70	25	241	65	25	156	72	25	241
INSURANCE FIRMS	133	50	301	133	50	301	132	56	258
Source: Study result, 2016									

PANEL B :	SUMMARY STATISTICS FOR BIG 4								
	ENTIRE PERIOD			PRE-IFRS PERIOD			POST-IFRS PERIOD		
INDUSTRY	MEAN	MIN	MAX	MEAN	MIN	MAX	MEAN	MIN	MAX
ENTIRE INDUSTRY	0.65019	0	1	0.5481	0	1	0.751	0	1
BANKS	0.8038	0	1	0.6937	0	1	0.8831	0	1
INSURANCE FIRMS	0.483	0	1	0.4647	0	1	0.5158	0	1
Source: Study result, 2016									

Panel 'A' of table 4.19 further reveals the audit report lag in number of days for the industries. The results implies that overall it takes an average 102 days for a financial institution to issue its' annual report to shareholders. This interval is still above the Companies Code, 1963 (Act 179) provision which require all companies to publish their annual report within the first quarter of the year. Particularly, a banking firm takes an average of 70 days to issue its annual report while an insurance firm takes an average of 133 days to issue its annual reports to shareholders and other users. The above statistics indicate that banks in general are able to comply with the provisions of the Ghana Companies' Code, 1963 (Act 179) while insurance companies exceed this lag by 42 days on the average.

Again, the period under consideration witnessed a slight increase in the audit report lag (ARL) for the banking industry from an average of 65 days in the pre- adoption period to an average of 72 days during the post adoption period. However, the insurance sector experienced an

insignificant decrease in the number of days from the financial statements date to the date of the release of the audit report during the post IFRS regime. On the average the banking sector continue to have a shorter audit report lag relative to the insurance sector in both periods. Prior to the adoption of the new standard the banks show an average ARL of 65 days against an average of 133 days in the insurance industry. Similar trend is seen during the post adoption period with the banking industry recording an average ARL of 72 days against an average of 132 days in the insurance industry.

The increased in the ARL could be ascribed to greater effort required from auditors by the new standard. Greater effort is demanded from auditors in that IFRS are principle-based, and based on fair values relative to the local GNAS, which are rule-based and historical cost oriented which require more complex estimates and higher professional judgement from auditors (KPMG, 2007; Deloitte, 2008; Kim et al., 2012). Again, since the new IFRS increases the disclosure, it requires greater effort and time to extensively verify and provide assurance concerning the audited financial statements (Hoogendoorn, 2006).

Another interesting revelation from panel "B" of table 4. 19 is the fact that the BIG 4 auditing firms continue to increase their market share over the study period in the financial institutions in Ghana. The BIG 4 audit firms increased their market share by almost 27 percent and 11 percent from the pre- IFRS era to post- IFRS era in both banking and insurance industry respectively.

Since the issue of IFRS complexity has become a major concern among the preparers of financial statements, directors and auditors, this development could be attributed to the fact that the complex nature of the new standard might have called for more competent, experienced and knowledgeable auditors who are well versed in the new standard to undertake the audit

after the transition to the IFRS. Hence the need to employ the services of the BIG 4 auditing firms. This is consistent with existing literature (Larson & Street, 2004; Ovute & Eyisi, 2014).

4.4.3.2Auditor Type, Listing Status and ARL

Table 4.18: Audit Report Lag, Auditor Type and Listing Status

PANEL A - ARL AND AUDITOR TYPE										
		ENTIRE INDUSTRY			BANKS			INSURANCE FIRMS		
TYPE	Variable	Mean	Min	Max	Mean	Min	Max	Mean	Min	Max
NON-BIG4	ARL(DAYS)	124	25	278	71	25	241	142	80	278
BIG4	ARL(DAYS)	90	25	301	69	25	172	123	50	301
Source: Study result, 2016										
PANEL B - ARL AND LISTING STATUS										
		ENTIRE INDUSTRY			BANKS			INSURANCE FIRMS		
STATUS	Variable	Mean	Min	Max	Mean	Min	Max	Mean	Min	Max
NON-LISTED	ARL(DAYS)	110	25	301	75	25	241	138	56	301
LISTED	ARL(DAYS)	76	25	186	61	25	143	109	50	186
Source: Study result, 2016										

It is evident from the above results that the Big 4 auditing firms takes relatively shorter number of days in conducting their audit compared to the Non- Big 4 audit firms in both banking and insurance industries. The study attribute this development to the resourcefulness and much experience and expertise staff of the Big 4 audit firms compared to the Non-Big 4.

The panel B of table 4.19 above also reveals that on the average listed firms, both banking and insurance have a shorter lag as compared to the non-listed firms in Ghana. Non- listed firms on the average take one month (34 days) more to issue their annual report. It takes a maximum of 143 and 186 days for listed banks and insurance firms respectively to issue their annual report compared to maximum of 241 and 301 days for non-listed banks and insurance firms respectively. This could be explained by the regulatory enforcement of the Ghana Stock

Exchange (GSE) and the sensitivity of their annual report to their wider shareholders across the globe.

4.4.4 IFRS Adoption and Audit Fee

Table 4.20, 4.21 and 4.22 below present empirical evidence on the effect of IFRS adoption on audit for banks, insurance industry and the overall financial institution respectively. The results provide additional insight into the major determinant of audit fees in these industries.

Table 4.19: Regression results on audit fees – Banks

Number of obs.			**189**
F(13, 175)			**55.27**
F(Prob.)			**0.0000**
Adjusted R-squared			**0.687**
FEE	Coef.	t-value	VIF
IFRS	0.1702***	3.72	2.21
SIZE	0.6544***	14.61	2.24
ARL	0.125	1	1.46
GLOANS	0.1112	1.59	4.33
EFF	0.14	1.51	1.6
LEV	-1.3086***	-3.8	1.29
ROA	1.007	1.11	2.41
LOSS	0.2224**	2.32	1.74
GOVSEC	0.3573**	2.57	2.57
BIG4	-0.0391	-0.94	1.34
LIST	-0.0089	-0.26	1.36
REC	-1.0157*	-1.88	1.34
RESERV	0.8451	1.35	5.11
_cons	-0.2781	-0.52	

Source: Study result, 2016

Note: *, **, represent statistical significance at 1% and 5% respectively.**

Table 4.20 above displays the robust regression estimation results for the audit fee model for banks. The Adjusted R^2 of 0.69 reported for the combined sample indicate that about 69% of the variations in audit fees can be explained by the model.

As predicted, the coefficient of the primary variable of interest (IFRS) shows a very strong statistical significance at 1% level. Accordingly, this results support hypothesis 2, which states that the adoption of IFRS affect audit fees of financial institutions in Ghana. This observation implies that the adoption and implementation of the new standard (IFRS) is associated with higher audit fees. The result indicates that the adoption of IFRS has significantly increased audit fees for Ghanaian banks in the IFRS-compliant period.

This evidence support the argument that auditors exert extra effort on IFRS base financial statement due the complexity and much disclosures associated with it. This observation is consistent with prior literature on the impact of IFRS on audit fees (Lin & Yen, 2010).

Looking at the result from the perspective of agency theory it can be deduced that the adoption of the IFRS as corporate control mechanism to reduce information asymmetry through transparent reporting (increased disclosure) has resulted in increased agency cost. This is because audit fees is considered as an agency cost from the perspective of agency theory.

As rightly predicted, the coefficient of *SIZE* is positive and highly significant, suggesting that size is positively related to audit fees. The result implies that audit fees are higher for banks that are bigger in size relative to small banks. The study relate this result to the argument by Fields et al. (2004) that large banks are usually associated with much more complex financial profiles and diverse sources of liquidity than small banks as well has considerably different risk profiles. This findings support the assertion by Simunic (1980) that audit of larger companies require additional detailed audit procedures and tests, more effort and time to test and analyse the company's large data and information. This argument is replete in existing

literature (Cameran et al., 2014; Cameran & Perotti, 2014; Fields et al., 2004; Griffin et al., 2007; Lin,& Yen, 2010).

Debt ratio (*LEV*) is statistically significant, but negatively related to the fees. This suggest that banks with high liquidity risk mostly pay lower audit charges. This result is inconsistent with the findings of (Risheh, 2014). The coefficient of REC shows negative and significant at 5 percent indicating that banks with complex operations pay relatively lower audit fees. This result contrast with the findings reported by (Choi & Yoon, 2014; Vieru & Schadewitz, 2010). GOVSEC and LOSS are all positive and significant at 5% which means banks with high profitability and liquidity risk pay higher audit fees probably due to higher audit risk exposure. This result is consistent with (Fields et al., 2004).

On the whole, higher audit fees in the banking sector can be attributed to the new accounting standard, size of banks and level of risk (liquidity and profitability risk).

Table 4.21 below documents evidence of the effect of IFRS and other selected factors on audit fees in the insurance industry in Ghana. The F – stat probability of 0.000 and adjusted R^2 of value of 0.52 point to the fact that the model is well fit for the data. This is also similar to other empirical literature ((Risheh, 2014) which recorded adjusted R^2 within the range of 50% and 60%. The combined sample estimation explains almost 52 percent of the variation in audit fees in the insurance industry.

The significant positive coefficient estimate for the key experimental variable (IFRS), provide yet another evidence in support of hypothesis 2 that the adoption of the new accounting standard affect the level of audit fees. This evidence suggest that insurance companies pay premium on audit fees after switching from the local GAAP to the new accounting standard. The study attribute this to the argument by some researchers that greater effort is required from

auditors to audit IFRS compliant firms which is likely to be reflected by higher fees (Cameran et al., 2014; Kim et al., 2012).

Table 4.20: IFRS Adoption and Audit Fees –Insurance

Number of obs.			**249**
F(11,243)			**34.49**
F(Prob.)			**0.0000**
Adj. R-squared			**0.52**
FEE	**Coef.**	**t-value**	**VIF**
IFRS	0.2057***	4.89	1.36
SIZE	0.4530***	10.93	1.89
ROA	0.2610*	1.9	1.44
EFF	0.074	1.26	1.18
ARL	-0.0649	-0.43	1.19
BIG4	0.1278***	3.22	1.36
LOSS	0.1794***	3.86	1.39
GOVSEC	-0.08670*	-1.92	1.13
LEV	-0.02463	-0.85	1.61
REC	0.0263	0.9	1.06
LIST	0.037	0.59	1.78
RESERV	0.5011***	3	1.53
_cons	0.8501	1.92	

Source: Study result, 2016

Note: *, **, signify statistical significance at 1% and 5% respectively.**

For the control variables, the study find significant coefficients in the expected directions. The significant positive coefficient estimate of SIZE suggest that higher audit fee is charged for audit of large insurance firms. The consistent significance of the positive coefficient on SIZE appear to corroborate the assertion by Hay et al. (2006) that size is by far the most dominant and significant variable which account for over 70 percent of all variations in audit fees. The study also find high significance association between the profitability risk (ROA and

LOSS) and audit fees. This indicate that insurance firms that are less profitable or faces profitability risk pay higher audit fees due to going concern risk associated with the client which poses more audit risk to the auditors. this evidence support earlier findings (Gul et al., 2003; Hoitash et al., 2007; Risheh, 2014).

The coefficient on BIG 4 is positive and significant at 1 percent suggesting that members of international accounting firms charge a higher level of audit fees than local accounting firms. This result also provide evidence in support of the widely held view that members of the international accounting firm charge higher audit fees relative to the Non- Big 4 firms evidence by the 1% significance level of the coefficient. The study attributes this variation in fees among other things to the perceived superior quality of service and reputation enjoyed by the Big 4 audit firms in Ghana. This findings is consistent with literature on this subject (Fields et al., 2004; Gul et al., 2003; Hoitash et al., 2007; Risheh, 2014). The coefficient of RESERV shows positive and highly significant at 1% indicating that high audit fees can be explained by the level of insurance credit reserves. This implies that audit fee premium is charged for the audit of insurance firms with high proportion of regulatory reserves. This results upholds the findings by (Cameran & Perotti, 2014).

The coefficients for LIST is positive but insignificant signalling that listed insurance firm, all things being pay higher audit fees compared to the non-listed firms. This is consistent with prior studies (Griffin et al., 2007). ARL also show a negative association with fees though very weak contrary to expectations.

In summary, the results show that audit fees are higher for insurance firms that are IFRS compliant, large in size, more risky and opt for the Big 4 as its audit partner and to some extent complex.

Table 4.21: Regression Result for Audit Fee – Overall Institution

Number of Obs.			**482**
F(12, 469)			**145.66**
F(Prob.)			**0.0000**
Adj. R-squared			**0.72**
FEE	**Coef.**	**t - value**	**VIF**
IFRS	0.2246***	7.57	1.63
SIZE	0.4693***	21.1	3.11
ROA	0.1611*	1.86	1.33
LEV	-0.036	-1.48	1.36
RESERV	0.5419***	3.7	1.54
EFF	-0.0254	-0.9	1.21
GOVSEC	-0.0052	-0.18	1.19
ARL	0.0627	0.77	2.02
REC	0.0301	1.1	1.13
BIG4	0.0905***	3.28	1.3
LOSS	0.1656***	4.38	1.41
LIST	0.0208	0.68	1.35
_cons	0.4789	1.71	

Source: Study result, 2016

Note: ***, **, represent statistical significance at 1%, and 5% respectively.

The above regression results present the overall effect of IFRS adoption and implementation on audit fee on the entire sample financial institution. The results further reinforces the findings from the banking and insurance industries that the adoption of new accounting standard affect the audit fees among the financial institutions in Ghana. In the nutshell, the results suggest that financial institutions that are IFRS compliant pay relatively higher audit fee. Moreover, financial institutions that are large in size, more risky: profitability risk (ROA, LOSS), and liquidity risk (LEV) and Capital risk (RESERV), and affiliated with the Big 4 audit firms pay higher audit fees compared to their counterparts without this features. Thus,

these variables are the main determinants of audit fees among the financial institutions in Ghana. This is in line with prior studies (Fields et al., 2004; Cameran & Perotti, 2014).

4.5 Regression Results on Audit Fees and Financial Reporting Quality

Table 4.23 below presents the relation between the level of reporting quality and the audit fee charged for banks and insurance companies.

Table 4.22: Audit Fee and Financial Reporting Quality- Overall Institution

AUDIT FEE AND REPORTING QUALITY - OVERALL FINANCIAL INSTITUTION							
Fixed Effect				Random Effect			
Number of obs.			516	Number of obs.			516
R-sq:			0.5829	R-sq:			0.5913
F(5,459)			96.69	Wald	chi2(5)		559.4
F(Prob)			0.0000	F(Prob)			0.0000
FEE	Coef.	t	p-value	FEE	Coef.	z - Stat	p -value
LA	-0.30543	-3.53	0.000	LA	-0.33502	-3.99	0.000
JMBE	-0.01302	-0.3	0.766	JMBE	0.036755	0.85	0.397
LOSS	0.333744	4	0.000.	LOSS	0.393193	4.87	0.000
EFF	0.014583	0.37	0.709	EFF	-0.02013	-0.51	0.607
SIZE	0.745566	21.35	0.0000	SIZE	0.629731	22.92	0.000
_cons	-1.40242	-5.1	0.000	_cons	-0.48745	-2.24	0.000

Source: Study result, 2016

Table 4.23: Audit Fees and Financial Reporting Quality – Banks and Insurance Firms

BANKS				INSURANCE FIRMS			
AUDIT FEE AND REPORTING QUALITY				AUDIT FEE AND FINANCIAL REPORTING QUALITY			
No. of Obs.			249	No. of obs			265
F(5,220)			140.22	F(5, 259)			65.93
F (Prob)			0.000.	F (Prob)			0.000.
FEE	Coef.	z -Stat	p-value	FEE	Coef.	z-Stat	p-value
LA	-0.0969	-0.57	0.567	LA	-0.0408	-0.59	0.558
JMBE	0.20136	1.25	0.213	JMBE	-0.0008	-0.02	0.984
LOSS	-0.052	-0.46	0.649	SIZE	0.57	17.35	0.000.
EFF	0.00449	0.15	0.877	LOSS	0.22547	3.43	0.001
SIZE	0.72554	25.4	0.000.	EFF	0.02419	0.39	0.697
_cons	-1.4343	-5.78	0.000.	_cons	0.04547	0.19	0.846
Source: Study result, 2016				Source: Study result, 2016			

Table 4.24: Hausman Specification test for Audit Fee and Reporting Quality

Hausman Specification test for Audit Fee and Reporting Quality					
	(b)	(B)	(b-B)	sqrt(diag(V_b-V_B))	
Variable	R	F	Difference	S.E.	
LA	-0.33502	-0.30543	-0.02959	.	
JMBE	0.036755	-0.01302	0.049778	.	
EFF	-0.02013	0.014583	-0.03471	0.002759	
SIZE	0.629731	0.745566	-0.11583	.	
LOSS	0.393193	0.333744	0.059449	.	
_cons	-0.48745	-1.40242	0.914963	.	
chi2(6)	=	(b-B)'[(V_b-V_B)^(-1)](b-B)			
=	-28.83	chi2<0	==>		
Source: Study result, 2016					

The relation between audit fees and reporting quality has been the focus of considerable scholarly, institutional, and regulatory debate over recent years. Table 4.23 above present evidence of the association between audit fees and two measures of reporting quality among financial institutions in Ghana.

The results from the Hausman specification test -28.83 chi2 < 0 for both industries informed the decision to adopt the random effect model as the more appropriate model for the above regression. The F – stat probability of 0.000 for both industries also indicate the model is well fit for the data.

Generally, the study finds a statistically significant negative association between total fees and LA metrics of reporting quality. The study however find an insignificant positive association between audit fee and JMBE. This indicates that there is significant relation between the level of audit fees and reporting quality. The coefficients for both earnings management proxies are negative albeit insignificant for the insurance sector. The negative relation between audit fees and the earnings management proxies is consistent with prior studies (Hoitash et al., 2007). The result from the insurance data suggest that all things being equal a percentage rise in the frequency of benchmark beating (low quality) will lead to (0.0408, 0.0008) decline in fees. Thus, the higher the level of earnings management (lower reporting quality) the lower the audit

fees charged. The opposite holds that higher fees are associated with smaller earnings management (higher reporting quality).

This seems to suggest that auditors tend to relax the application of the standards or devout less effort and resources to the audit task when fees are perceived to be low. Rather divert their resources and expertise to clients that pay relatively higher fees. This observation is in in line with the argument by (Hoitash et al., 2007) that auditors are mostly driven by client importance. According to Larcker and Richardson, (2004) such negative relation occurs mostly in firms with high insider holdings, low market capitalisation and firms where auditors appears to be playing a key role in the governance process.

The positive relation between audit fees and JMBE implies that higher audit fees are charged when reporting quality is low. This support the argument by Bedard & Johnstone (2004) that auditors charge a fee premium for clients with perceived greater risk of earnings management in that auditors devout greater audit effort in response to perceive a higher risk of estimation and valuation errors (Gul et al., 2003).

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter summarises the findings analysed from the data gathered through the audited annual reports of 23 universal banks and 28 insurance companies as at 2014 in chapter four. This chapter also discusses the researchers' recommendations and conclusion to the study.

The introduction of IFRS has been described by far as the biggest accounting reforms in the history of the accounting profession after Sarbanes–Oxley Act 2002 in US (Lai & Taylor, 2013). The overwhelming global rate of adoption and implementation since its introduction has been attributed to its' relative superiority over the national local GAAPs and perhaps institutional theory. Ghana as a country joined this global accounting reform in 2007 requiring all its institutions to comply in detail to the provisions of this new reporting framework.

The conjecture that this new standard result in superior reporting quality has attracted scholarly, institutional and regulatory debate over recent years. The complexity of this new standard and huge audit cost has been cited as the major implementation challenges.

This study therefore sought to examine the effect of the adoption of this new accounting standard on the reporting quality among the financial institutions in Ghana after almost a decade of its implementation. Again, the study sought to established if the audit fees among financial institutions has actually risen unusually as opined, and whether this development is related with the level of quality reporting resulting from the transition to the IFRS.

5.2 Summary of Findings

Officially, Ghana embraced the new standard (IFRS) in 2007, however, compliance in the form of implementation delayed due to several challenges. The study discovered that majority of the universal banks actually adopted the IFRS in 2008 while most of the insurance companies complied in 2012 despite the directive to comply in 2007.

The study finds that majority of the financial intuitions under study are not listed. The listing status for the selected firms under study were found to be 35% and 16% for banks and insurance companies respectively resulting in an average listing status of 26% for the overall industry. The study finds that the insurance industry has experienced much more tremendous growth in assets relative the banking sector. Nonetheless, the banking industry still remain more profitable than the insurance industry in terms of operating cash flow.

The study finds that the switch from the local GAAP, Ghana National Accounting Standard to the new standard (IFRS) has enhanced the financial reporting quality among the financial institutions in Ghana. Specifically, the study finds a reduction in the frequency of earnings management practices among both industries during the post adoption era. It was discovered that the level of earnings management is not necessarily measured by the size of the firm.
It also came to light that the presence of the Big 4 could not reduce the level of earnings management practices among the financial institutions in Ghana.

The study finds that members of the international audit firms dominate the banking industry, controlling about 81 percent of the universal banks. The Big4 actually increased their market share by almost 27% and 11% in the banking and insurance industry respectively after the introduction of the new accounting standard (IFRS) as the main reporting framework. Moreover, the study find that the Big 4 audit firms charge about 3 times higher audit fees relative to the local non- Big 4 audit firms. It was again discovered that banks pay relatively

higher audit fee compared to the insurance firms. Moreover, the rate of growth in audit fees in the insurance industry has been quite steady compared to the sharp growth in the banking industry. The banking sector experienced about 392% increase in total audit fees after switching to the new accounting standard compared to about 149% increase in the insurance industry. Besides, it was discovered that banks issue their report faster than the insurance companies. Also financial institutions audited by the Big 4 tend to have a shorter audit report lag compared to banks audited by the local audit firms.

It was also discovered that listed firms pay audit fee premium compared to their non- listed counterparts. The study find that audit fee for banks were mostly driven by the accounting standard adopted, size of the total assets and risk associated with the bank's operations. In the case of insurance firms audit fees were mostly influenced by the type of accounting standard used, size of the insurance firm, complexity of their operations and whether the firm is affiliated with the Big 4 or local accounting firm.

Generally, the study find a statistically significant negative association between the level of audit fees and the earnings management metric of financial reporting quality. Positive relation between the audit fees charged and the frequency of earnings beating was discovered although insignificant statistically for JMBE and loss avoidance in the banks.

5.3 Conclusion

From the ongoing analysis, financial reporting quality has improved among the financial institutions in Ghana following the adoption of IFRS as the reporting framework. In addition, the results from the panel regression models indicate that the adoption and implementation of IFRS among universal banks and insurance companies in Ghana has resulted in higher incremental audit fee charges more especially banks.

5.4 Recommendations

It is recommended that companies, both banks and insurance companies endeavour to fully comply with the new standard to ensure the full realisation of reporting quality that accrue from the adoption of IFRS.

Besides, regulatory and oversight bodies such as the BoG, NIC, SEC, ICAG step up their regulatory and monitoring mechanisms to ensure that members strictly comply with the provisions of the new standard in order to realise its full benefits.

Given that managers have the strong incentive to smooth earnings to meet certain target or to avoid losses altogether, auditors should be encouraged to act professionally by improving their professional scepticism to drastically reduce or eliminate any trace of benchmark beating behaviour. Auditors should not compromise their integrity for financial interest. This is to ensure highest level of financial reporting quality among the financial institutions in Ghana.

Moreover, Accountants or Chief Financial Officers (CFO) and their Chief Executive Officers (CEO's) should be made to pay a huge penalty should their financial report be found to be massaged to serve as deterrent to the rest of the managers as in the case of US section 906 of Sarbanes–Oxley Act 2002.

Furthermore, there should be an oversight committee to provide independent oversight of auditors and to reduce arbitrary audit fee charges. This will help ensure compliance audits, quality control and to enforce specific provisions of IFRS and International Standard on Auditing (ISA).

5.5 Future Research Consideration

This study adds to the dearth of literature on the impact of IFRS adoption on reporting quality among financial institutions from the perspective of developing country- Ghana. Again, the study shed more light on the implementation cost of the IFRS adoption in the form of audit fees.

The study provide evidence to show that financial institution in Ghana exhibit less earnings management after compliance with the new standard (IFRS). The study is unique in the sense that it includes the insurance industry where the literature is largely silent on the impact of IFRS adoption by countries on the African continent. Furthermore, unlike previous studies, this study consider both listed and non-listed firms.

This study considered the impact of IFRS adoption for universal banks and insurance companies in Ghana which forms small proportion of the financial sector. Future research should consider the effect of IFRS for Small and Medium-Sized Entities (IFRS for SME's) on small businesses which forms larger part of the financial sector.

Traditionally, reporting quality has been measured using earnings management, timely loss recognition and value relevance, however, this study used earnings management as a proxy for reporting quality. Future research should attempt to use other measures to corroborate this findings.

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APPENDIX: LIST OF SAMPLE FIRMS

BANKS USED IN THE SAMPLE

1. AGRICULTURAL DEVELOPMENT BANK LIMITED
2. BANK OF AFRICA LIMITED
3. BARCLAYS BANK GHANA LIMITED
4. CAL BANK LIMITED
5. ECOBANK GHANA LIMITED
6. FIDELITY BANK LIMITED
7. FIRST ATLANTIC MERCHANT BANK LIMITED
8. GHANA COMMERCIAL BANK(GCB) LIMITED
9. GUARANTEED TRUST BANK LIMITED
10. HFC (GHANA) LIMITED
11. INTERCONTINENTAL BANK (GHANA) LIMITED
12. INTERNATIONAL COMMERCIAL BANK LIMITED
13. MERCHANT BANK GHANA LIMITED
14. NATIONAL INVESTMENT BANK(NIB) LIMITED
15. PRUDENTIAL BANK LIMITED
16. SSB BANK LIMITED
17. STANBIC BANK LIMITED
18. STANDARD CHARTED BANK LIMITED
19. THE TURST BANK LIMITED
20. UNIBANK (GHANA) LIMITED
21. UNITED BANK OF AFRICA(UBA) GHANA LIMITED
22. UT BANK LIMITED
23. ZINNETH BANK (GHANA) LIMITED

NON-LIFE INSURANCE COMPANIES USED IN THE SAMPLE

1. DONWELL INSURANCE COMPANY LIMITED
2. ENTERPRISE INSURANCE COMPANY LIMITED
3. GHANA UNION ASSURANCE COMPANY LIMITED
4. GLICO GENERAL INSURANCE COMPANY LIMITED
5. INT. ENERGY INSURANCE COMPANY LIMITED
6. METROPOLITAN INSURANCE COMPANY LIMITED
7. PHOENIX INSURANCE COMPANY LIMITED
8. PRIME INSURANCE COMPANY LIMITED
9. PROVIDENT INSURANCE COMPANY LIMITED
10. PROVIDENT INSURANCE COMPANY LIMITED
11. QUALITY INSURANCE COMPANY LIMITED
12. STAR ASSURANCE COMPANY LIMITED
13. STATE INSURANCE COMPANY LIMITED
14. UNIQUE INSURANCE COMPANY LIMITED
15. VANQUARD ASSURANCE COMPANY LIMITED

LIFE INSURANCE FIRMS USED IN THE SAMPLE

1. DONWELL LIFE COMPANY LIMITED
2. ENTERPRISE LIFE ASSURNCE COMPANY LIMITED
3. GHANA LIFE INSURANCE COMPANY LIMITED
4. GHANA UNION ASSURANCE LIFE COMPANY LIMITED
5. GLICO LIFE INSURANCE COMPANY LIMITED
6. METROPOLITAN LIFE INSURANCE GHANA LIMITED

7. PHOENIX LIFE ASSURANCE COMPANY LIMITED
8. PROVIDENT LIFE ASSURANCE COMPANY LIMITED
9. QUALITY LIFE ASSURANCE COMPANY LIMITED
10. SIC LIFE COMPANY LIMITED
11. STAR LIFE ASSURANCE COMPANY LIMITED
12. UNIQUE LIFE ASSURANCE COMPANY LIMITED
13. VANGUARD LIFE ASSURANCE COMPANY LIMITED