

**UNIVERSITY OF GHANA
COLLEGE OF HUMANITIES**

**AUDIT COMMITTEE CHARACTERISTICS AND
FIRM PERFORMANCE: THE MEDIATING EFFECT
OF FINANCIAL REPORTING QUALITY**

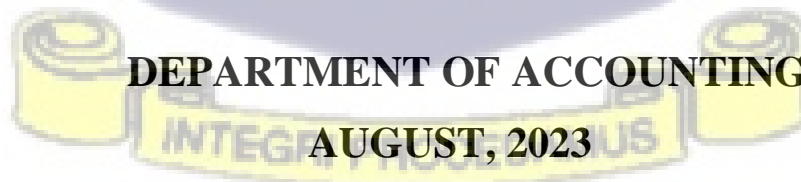
BY

FAVOUR AMARACHI UWAKWE

**THIS THESIS IS SUBMITTED TO THE UNIVERSITY OF
GHANA, LEGON, IN PARTIAL FULFILMENT OF THE
REQUIREMENT FOR THE AWARD OF MPhil ACCOUNTING
DEGREE**

DEPARTMENT OF ACCOUNTING

AUGUST, 2023



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DECLARATION

I hereby declare that; this study is my original work and that it has not been submitted for an award in the University of Ghana or any other tertiary institution. I bear sole responsibility for any shortcomings.



01/11/2023

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UWAKWE FAVOUR AMARACHI

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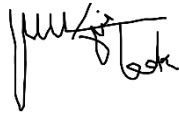
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CERTIFICATION

This is to certify that this thesis has been supervised with the laid down principles of the University.



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DR. TEDDY OSSEI KWAKYE

DATE

(Supervisor)



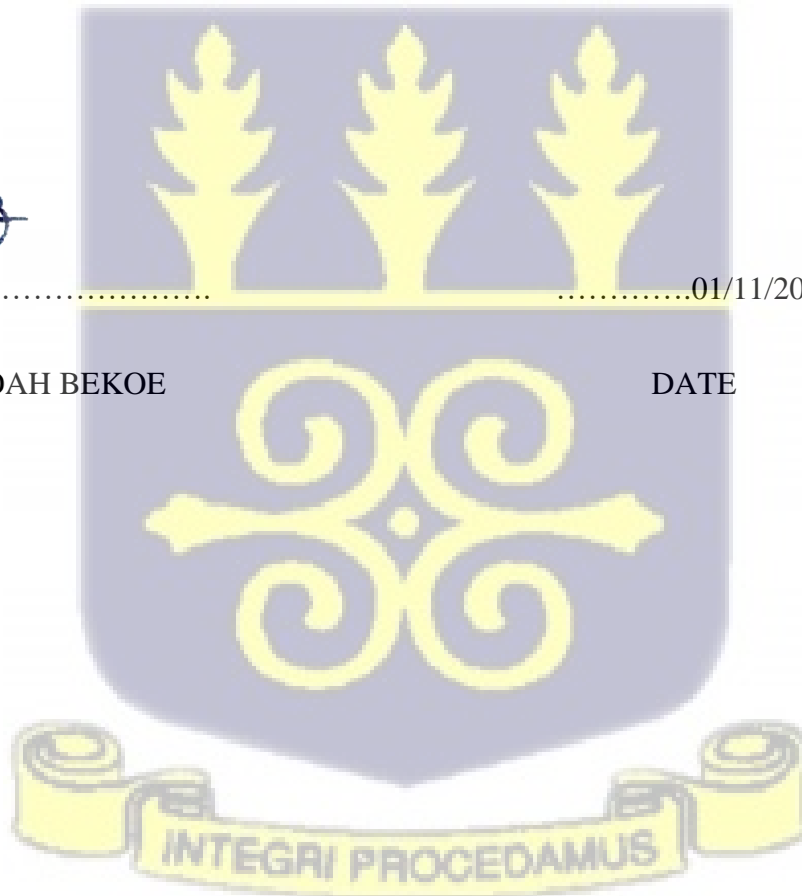
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.....01/11/2023.....

DR. RITA AMOAH BEKOE

DATE

(Co-Supervisor)



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DEDICATION

This work is dedicated to God Almighty for his love towards me. Also, to my loving husband Dr. Eric Boachie Yiadom, and my beautiful girls, Sikapa Afriyie Boachie-Yiadom, and Akyedeepea Kwatemaah Boachie-Yiadom for being supportive throughout this journey. God bless you.



ABSTRACT

The study investigates the mediating effect of financial reporting quality on the relationship between audit committee characteristics and firm performance, using empirical evidence from listed firms in Ghana. This research uses data from the 37 listed firms in Ghana, for the period 2007-2019. The study adopts the system-GMM estimation techniques. The results of the study revealed that all audit committee (AC) characteristics positively and significantly influence firm performance. However, in relation to financial reporting quality, all AC characteristics employed except for AC independence, and legal expertise showed a significant and positive relationship.

The result also revealed that financial reporting quality (FRQ) mediated only the relationships that met all the conditions of Baron and Kenny's (1986) mediation analysis between AC characteristics and firm performance. These include the relationship between AC size, financial expertise, industry expertise, gender diversity, and firm performance. Thus, the study recommends that in developing policies toward the characteristics of audit committees, emphasis should be placed on strengthening weak ones such as AC independence, which forms one of the primary requirements for an effective audit committee (AC).

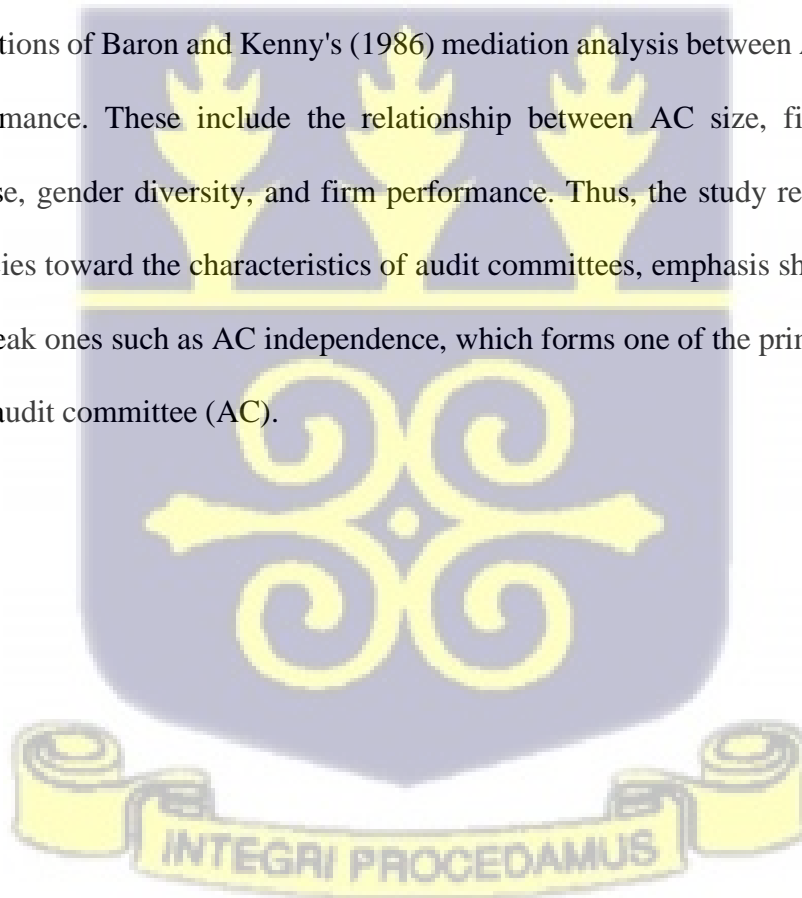


TABLE OF CONTENTS

DECLARATION	i
CERTIFICATION	ii
ACKNOWLEDGMENT	iii
DEDICATION.....	iv
ABSTRACT	v
TABLE OF CONTENTS	vi
LIST OF TABLES	xi
LIST OF FIGURES	xii
LIST OF ABBREVIATIONS.....	xiii
CHAPTER ONE	1
INTRODUCTION	1
1.1 Background of the Study	2
1.2 Statement of the Research Problem.....	6
1.3 Objectives of the Study.....	10

1.4	Research Questions.....	10
1.5	Significance of the Study	10
1.6	Organization of the Study	12
1.7	Chapter Summary	13
CHAPTER TWO		14
LITERATURE REVIEW		14
2.1	Chapter Introduction.....	15
2.2	Concept of Audit Committee	15
2.3	Role of the Audit Committee	16
2.4	Characteristics of the Audit Committee.....	18
2.4.1	Audit Committee Independence.....	18
2.4.2	Audit Committee Size.....	19
2.4.3	Audit Committee Financial Expertise	20
2.4.4	Audit Committee Industry Expertise	20
2.4.5	Audit Committee Legal Expertise.....	21
2.4.6	Audit Committee Gender Diversity.....	22
2.5	Theoretical Review.....	22
2.5.1	Agency Theory	22
2.5.2	Resource Dependency Theory	24
2.6	Firm Performance.....	25
2.7	Financial Reporting Quality.....	27
2.8	Conceptual Framework.....	28
2.9	Empirical Literature Review and Hypotheses Development (AC characteristics, financial reporting quality, and firm performance)	29
2.9.1	AC Independence and Firm Performance.....	30
2.9.2	AC Size and Firm Performance.....	31
2.9.2	AC Financial Expertise and Firm Performance	32

2.9.3	AC Industry Expertise and Firm Performance	33
2.9.4	AC Legal Expertise and Firm Performance	35
2.9.5	AC Gender Diversity and Firm Performance.....	36
2.10	AC Characteristics and Financial Reporting Quality	38
2.10.1	AC Independence and Financial Reporting Quality.....	38
2.10.2	AC Size and Financial Reporting Quality	39
2.10.3	AC Financial Expertise and Financial Reporting Quality	41
2.10.4	AC Industry Expertise and Financial Reporting Quality.....	42
2.10.5	AC Legal Expertise and Financial Reporting Quality	43
2.10.6	AC Gender Diversity and Financial Reporting Quality	45
2.11	The Mediating Effect of Financial Reporting Quality and Firm Performance	45
2.12	Control Variable	46
2.13	Chapter Summary	47
CHAPTER THREE.....		49
RESEARCH METHODOLOGY.....		49
3.1	Chapter Introduction.....	50
3.2	Research Paradigm	50
3.3	Research Design	51
3.4	Sample Size and Sources of Data.....	51
3.5	Data Analysis and Empirical Model.....	51
3.6	Variable Measurement.....	52
3.6.1	Firm Performance.....	52
3.6.2	Financial Reporting Quality.....	53
3.6.3	Independent Variables	54
3.6.4	Control Variable	55
3.7	Testing the Mediation	55

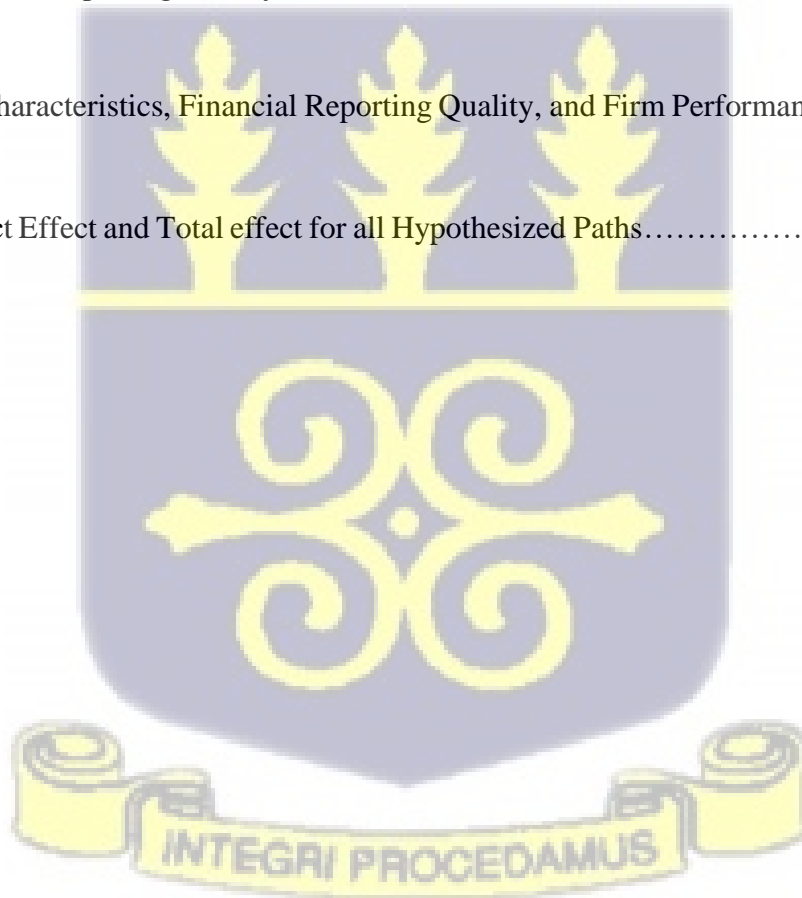
3.8	Chapter Summary	56
CHAPTER FOUR.....		57
RESULTS AND DISCUSSIONS OF FINDINGS		57
4.1	Introduction	58
4.2	Descriptive analysis	58
4.3	Correlation Analysis	61
4.4	Regression Results and Hypothesis Testing	64
4.4.1	AC Characteristics and Firm Performance	64
4.4.2	AC Characteristics and Financial Reporting Quality	70
4.4.3	Financial Reporting Quality and Firm Performance	76
4.5	Mediating Effect of FRQ on the AC Characteristics and Firm Performance	78
4.5.1	Audit Committee Independence.....	81
4.5.2	Audit Committee Size.....	81
4.5.3	Audit Committee Financial Expertise	82
4.5.4	Audit Committee Industry Expertise.....	83
4.5.5	Audit Committee Legal Expertise	84
4.5.6	Audit Committee Gender Diversity.....	85
4.6	Chapter Summary.....	85
CHAPTER FIVE		86
SUMMARY OF FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS.....		86
5.1	Introduction	88
5.2	Summary of Findings	88
5.3	Conclusion	89
5.4	Implications and Recommendations.....	90
5.5	Contribution of the Research	91

5.6	Limitation of the Study	93
5.7	Recommendations for Future Research.....	94
	REFERENCE.....	94



LIST OF TABLES

Table 4.1: Descriptive Statistics.....	59
Table 4.2: Matrix of correlations.....	63
Table 4.3: AC Characteristics and Firm Performance.....	64
Table 4.4: AC Characteristics and Financial Reporting Quality.....	71
Table 4.5: Financial Reporting Quality (DA) and Firm Performance.....	76
Table 4.6: AC Characteristics, Financial Reporting Quality, and Firm Performance.....	78
Table 4.7 Indirect Effect and Total effect for all Hypothesized Paths.....	80



LIST OF FIGURES

Figure 1: Conceptual Framework – Mediating Role of FR in the AC-Firm Performance nexus...29

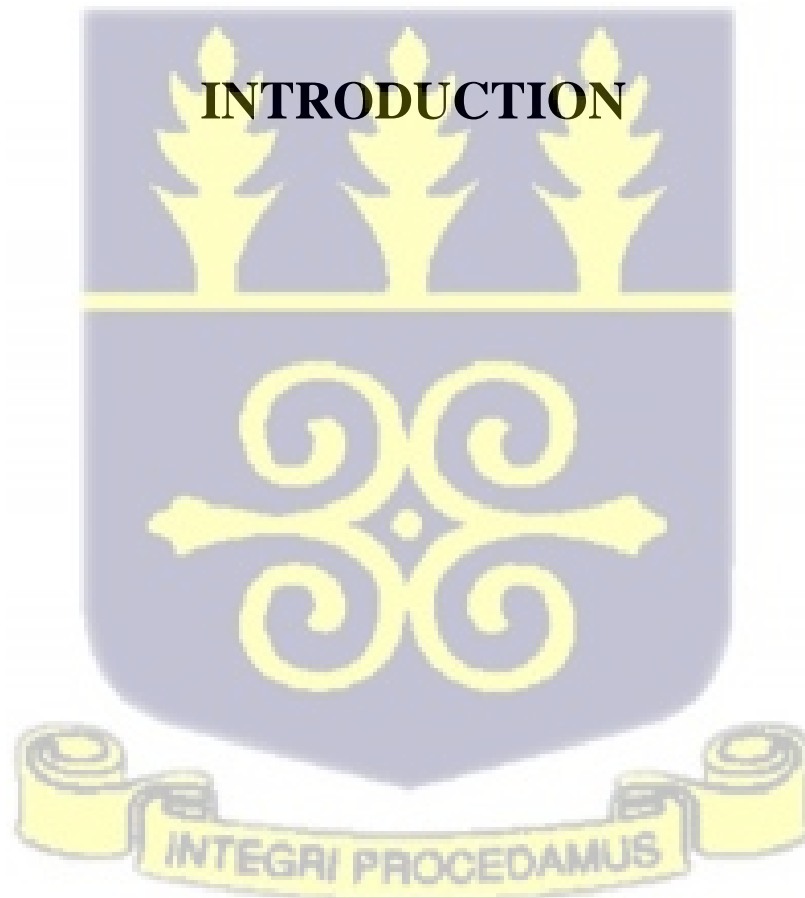


LIST OF ABBREVIATIONS

FRC	Financial Reporting Council
GSE	Ghana Stock Exchange
AC	Audit Committee
FRQ	Financial Reporting Quality
FP	Firm Performance
GMM	Generalised Method of Moment
BRC	Blue Ribbon Committee
SOX	Sarbenes Oxley Act
GAAP	Generally Accepted Accounting Principles
ROA	Return on Asset
ROE	Return on Equity
ROCE	Return on Capital Employed
EM	Earnings Management
DA	Discretionary Accruals



CHAPTER ONE



CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Firm performance has an implication on an organization's health and ultimately its survival (Ibrahim & Ombaba, 2019). Investors and stakeholders globally communicates that a company's performance is one of the first things they analyze to inform their engagement with the firm (Zabri et al., 2016). According to Bartoli and Blatrix (2015), corporate governance, research and development, assessment and control, efficiency, effectiveness, and comprehensive quality management, could be used to improve performance. Corporate governance is essential in the running of many organizations, and this practice helps ensure the overall performance of a firm (Ghazali, 2010). Within corporate governance, the audit committee (AC) is regarded as one of the crucial and influential participants in corporate governance (Mangena & Pike, 2005). Turley and Zaman (2014) assert that in recent times, there has been a greater emphasis on audit committees as one of the corporate governance regulations. This is a result of major corporate collapses, business failures, and new or updated legislation (Zraiq & Fadzil, 2018). Codes of best practices, legal legislation, industrial requirements, and stock exchange market requirements are designed to guide firms' implementation of audit committees (Blue Ribbon Committee, 1999).

The Audit Committee comprises experts with varied backgrounds, as it assists the board of directors in discharging its responsibilities in overseeing corporate management (Li, Mangena & Pike, 2012). The audit committee performs numerous roles within the organization, among which are formulating and supervising the financial reporting processes, determining, and strengthening

internal controls, financial report assessments, formulating and testing risk management controls, and promoting quality audit processes (Aldamen et al., 2012; Klein, 2002).

The audit committee can enhance the quality of financial reporting (FRQ) to improve firm performance (Contessotto & Moroney, 2014; Zabri et al., 2016). This promotes overall stakeholders' confidence (Herdjiono & Sari, 2017). Bagais and Aljaaidi (2020) asserted that audit committees assist in establishing the distinctness of internal audit departments and ensuring that internal auditors have adequate influence within a company to properly fulfill the goals of their audits. The internal audit functions are carefully organized by an audit committee, with suitable weight given to engaging employees who have the required skills and experiences. Additionally, one of the essential roles of the AC is to oversee the firm's financial reporting process and review of financial statements (Aldamen et al., 2012). This oversight duty of AC is important because the market participants often use the financial statements as a tool to evaluate firm performance (Cornett, Marcus & Tehranian, 2008). Decisions are based on the information disclosed in financial statements (Van der Raadt et al., 2010). Hence, to ensure reliability, the audit committee is set up as a monitoring mechanism to oversee the entire process of disclosure and financial reporting (Contessotto & Moroney, 2014).

The committee's effectiveness depends on its specific attributes, rather than just its existence, as noted by (Al-Matari, 2014). Similarly, several characteristics of an audit committee have been suggested as indicators of how well it fulfills its role in enhancing a company's performance (Aldamen, et al., 2012; Zraiq & Fadzil, 2018; Al-Matari, 2014). These suggested attributes encompass elements like independence, diversity, expertise, tenure, meeting frequency, and committee size, among others. The qualities of the audit committees play a vital role in upholding

the quality of various tools and processes aimed at boosting a firm's performance, as emphasized by (Cornett, Marcus & Tehranian, 2008). Furthermore, Omar and Khaled (2020) have documented that the AC characteristics in relation to firm performance relationships is not limited to straight linear model. This underscores the importance of conducting additional research to thoroughly investigate the impact of audit committees and financial reporting quality on firm performance (Koutoupis & Bekiaris, 2019). Consequently, these findings emphasize the necessity of delving into the mediating role of financial reporting in the relationship between audit committee characteristics and firm performance, especially within companies listed on the Ghana Stock Exchange.

According to Robins and Greenland (1992), a mediator is a variable that is part of a causal sequence between two variables. Financial reporting quality is an ideal mediator between audit committee characteristics and firm performance due to the fact general stakeholders often use financial statements as a tool for evaluating the performance of a firm (Sukmono & Yadiati, 2016; Islam, Slof & Albitar, 2023). Hence, manipulation of these financial statements information will result in declining quality of financial reporting information. This is because it reduces the usefulness of information for forecasting future profit and cash flow (Sukmono & Yadiati, 2016). Financial reporting quality is one of the corporate processes AC oversees (Jonas & Blanchet, 2000). The characteristics they possess help in ensuring good oversight over these processes. That is, companies who report quality financial information are associated with subsequent higher firm performance (Garcia-Lara et al., 2010; Ahmed & Duellmand, 2011; Bushman & Smith, 2001). This shows that financial reporting quality is an intervening variable mediating AC characteristics

and firm performance. The mediation effect suggests that the AC is expected to enhance FRQ, which subsequently, enhances firm performance (FP).



1.2 Statement of the Research Problem

The prior empirical literature on the audit committee and its characteristics have been discussed using various dependent variables. This includes the studies of (Omar & Khaled, 2020; Sidiq & Krismiaji, 2019; Amer, Ragab & Shehata, 2014; Ugbede, Lizam & Kaseri 2013; Zraiq & Fadzil, 2018) on firm performance; (Liao & Hsu, 2013) on executives' networks; (Kibiya, Ahmad & Amran, 2016; Madawaki & Amran, 2013) on financial reporting quality; (Ali, Besar & Mastuki, 2017; Yatim, 2009) on risk management; (He, Pittman, Rui, & Wu, 2017; Inaam & Khamoussi, 2016) on audit quality; and (Mohd & Wan, 2004) on the choice of external auditors amongst others. Studies such as Omar and Khaled (2020) and Sidiq and Krismiaji (2019) argue that the relationship between AC characteristics and firm performance goes beyond a direct linear model. Hence, there is an empirical call to include either a mediating or a moderating variable in explaining the relationship between AC characteristics and firm performance (Omar & Khaled, 2020; Sidiq & Krismiaji, 2019). This study seeks to answer this empirical call by introducing financial reporting quality as a mediating variable in explaining the relationship between AC characteristics and firm performance.

The relationship between audit committee characteristics and firm performance is complex (Omar & Khaled, 2020). Audit committees are responsible for providing oversight and ensuring the integrity and quality of financial reporting within a company. The characteristics of an audit committee can have both direct and indirect effects (Garcia-Lara et al., 2010) on a firm's performance. One of the primary ways in which audit committee characteristics can influence firm performance is through their impact on financial reporting quality. Characteristics such as independence, expertise, and experience of committee members, can enhance the accuracy, transparency, and reliability of financial statements. High-quality financial reporting is crucial for

investor confidence and trust, which can positively affect a firm's stock price and access to capital (Zraiq & Fadzil, 2018). Thus, as a way of projecting quality financial reporting, managers may engage in earnings management (Louis, 2004).

Financial reporting quality (FRQ) as the mediating factor in this study is negatively linked to earnings management (EM), which is considered the opposite of FRQ (Dechow & Dichev, 2002). Earnings management is regarded as a tool managers use in achieving short-term objectives and or presenting the company's financial performance in a favorable light. Also, manager engages earnings management to meet or exceed market expectations (Louis, 2004). Thus, as companies that consistently meet or beat earnings estimates may experience positive stock price reactions and attract more investors. However, in the long run, manipulative companies face negative consequences as the market penalizes them, resulting in lower overall corporate performance (Rangan, 1998). Earnings Quality (EQ) is one of the most employed proxies of FRQ in research. Louis (2004) also finds a positive relationship between EQ and future profitability, similarly to the findings of Rangan (1998). They asserted that over time, unethical earnings manipulation leads to reduced profitability and corporate performance.

Jo and Kim (2007) analyzed the connection between information disclosure, earnings management (EM), and subsequent performance. They found out, that higher levels of earnings management are linked to lower disclosure quality and lower future performance. When companies provide more comprehensive and transparent information in their financial statements, the tendency to engage in earnings management decreases (Tu, 2012). The research of Gunny (2005) found out that the impact of EQ on future performance is examined by analyzing the economic consequences of various types of real earnings management. He also noted that EQ affects future metrics like

tobin Q, return on assets, operating performance, and cash flows. Thus, companies with better-quality of financial information are associated with subsequent higher firm performance. This is also supported by the findings of Cornett, Marcus, and Tehranian (2008) as they asserted that financial reporting quality in the form of financial statements is frequently utilized by market participants and other stakeholders to assess a company's performance.

Financial reporting quality as the mediating variable in this study is one of the corporate processes AC oversees (Ugbede, Lizam & Kaseri 2013). Thus, the characteristics of the audit committee, such as independence and expertise, can directly impact the committee's ability to provide effective oversight of the financial reporting process. For example, an independent audit committee is more likely to scrutinize financial statements rigorously, hence an enhanced financial reporting quality (Alqatamin, 2018; Koutoupis & Bekiaris, 2019). Independent audit committees are better positioned to prevent management from engaging in earnings management practices or financial misrepresentation (Al-Matari, Al-Swidi, & Fadzil, 2012). Similarly, audit committees with industry expertise can better understand industry-specific accounting issues and ensure their accurate representation in financial reports (Cohen et., 2008). These characteristics possessed by the AC, would ensure high financial reporting quality, in turn, leads to improved firm performance (Alqatamin, 2018). Thus, enhanced trust placed on the financial reporting process by the audit committee can attract more investment, lower the cost of capital, and lead to improved firm performance (Madawaki, 2013), in terms of higher stock prices, lower financing costs, and stronger overall financial results (Ghafran & O'Sullivan, 2013).

However, despite the presence of audit committee, corporate scandals and firm failure still exist.

A notable example in Ghana is that of UT Bank and the defunct savings and loans. Hence, the

mere existence of an audit committee does not necessarily mitigate manipulation by management. This has created doubt as to the integrity of the financial statement and questioned the independence of AC (Kibiya, Ahmad & Amran, 2016). Consequently, in recent times concern and emphasis have gone beyond just the formation of audit committees, but on their effectiveness in the form of the characteristics they possess (Ghafran & O'Sullivan, 2013). Therefore, the audit committee must possess certain characteristics to be effective in their overall duties (Madawaki, 2013). The search for mechanisms to ensure reliable, quality, and credible control of a firm activity is often centered on audit committee characteristics (Zraiq & Fadzil, 2018).

Prior empirical studies that have examined AC characteristics employed the primary characteristics. These characteristics include AC independence, size, meeting frequency, and financial expertise (Ashari & Krismiaji, 2020; Badhabi & Ku Ismail, 2017; Amer, Ragab & Shehata, 2014; Ugbede, Lizam & Kaseri 2013; Hassan & Ahmed, 2012). The study of Ashari and Krismiaji (2020) calls for empirical studies in line with other characteristics the audit committees possess. In extension to the primary characteristics, the current study employs the AC industry expertise, legal expertise, and gender diversity. This has been added to the characteristics audit committees should possess, as evidenced by the Ghana Corporate Governance Rules (2020). Finally, consistent with Alzeban and Gwilliam's (2014) observation, it was noted that in developing countries ACs are current, and they operate within cultural and hierarchical frameworks. These are different from the developed countries with different traditions and a more formalized governance. This gives more room for further research to be done in developing economies like Africa, specifically in Ghana. Few studies which have been done in developing

economies includes, Mrwan, Aiman, and Shehata (2014) using Egypt, Omar and Khaled (2020) using Saudi Arabia; Rateb (2018) using Jordan; and Sidiq and Krismiaji (2019) using Indonesia.

1.3 Objectives of the Study

The primary objective of this study is to examine mediating effect of financial reporting quality on the relationship between AC characteristics and firm performances in Ghana, using empirical evidence from listed firms in Ghana.

1.4 Research Questions

To find a solution to the research problems, this study seeks to answer the question of how financial reporting quality mediates the relationship between AC characteristics and firm perform of listed companies in Ghana. Specifically, this study has considered the following questions:

- i. Do the audit committee characteristics influence the firm performance of the listed firms in Ghana?
- ii. Do the audit committee characteristics influence the financial reporting quality of the listed firms in Ghana?
- iii. Does FRQ affect the firm performance of the listed firms in Ghana?
- iv. Does FRQ mediate the relationship between the AC characteristics and the firm performance of the listed companies in Ghana?

1.5 Significance of the Study

There is much evidence on the impact of AC characteristics on firm performance around the globe. For example, some studies that examined the relationship between AC characteristics and firm

performance (e.g., Bagais, & Aljaaidi, 2020; Ashari, & Krismiaji, 2020; Koutoupis & Bekiaris, 2019), AC characteristics and FRQ (e.g., Madawaki, 2012; Madawaki & Amran, 2013; Kusnadi, Leong, Suwardy & Jiwei, 2015), and FRQ on firm performance (e.g., Sohail & Aziz, 2019). However, there is limited evidence from the prior literature empirically examining the mediating role of financial reporting quality on the relationship between the AC characteristics and the firm performance of the listed firms in Ghana.

Consequently, this study introduced FRQ to mediate the relationship between AC characteristics and firm performance. Thus, to the best of the researchers' knowledge, this study is the first of its kind to investigate the mediating impact of financial reporting quality on the connection between audit committee characteristics and a firm's Tobin's Q. Consequently, conducting a mediation analysis will offer a more comprehensive understanding of how the influence of the audit committee affects financial reporting quality and, subsequently, how this quality affects a firm's profitability.

The anticipated findings of this study are expected to have significant implications for various stakeholders, including regulators, practitioners, professionals, and company boards responsible for enhancing corporate governance within organizations. This is particularly important in reducing the likelihood of management engaging in accounting irregularities. The study's results will also benefit professionals like corporate executives and board chairpersons of publicly traded companies by providing insights into the crucial roles played by audit committee characteristics. This understanding can encourage them to take necessary steps to ensure the effective composition of their audit committees, thereby enhancing various aspects of a firm's operations, including financial reporting quality, and ultimately contributing to the firm's overall value.

Furthermore, the study can offer valuable insights to policymakers, aiding their comprehension of the essential attributes that audit committees should possess. This knowledge can be used in the development of future policies aimed at safeguarding the interests of shareholders and meeting the needs of other key stakeholders in the corporate governance.

Lastly, the results of this study will also provide regulators with a deeper understanding of the potential mediating role that financial reporting quality can play in augmenting the effectiveness of audit committees and improving the financial reporting process, consequently contributing to overall firm performance. By conducting a mediation analysis, we aim to shed light on whether financial reporting quality complements audit committee attributes in enhancing firm performance, which could either result in full or partial mediation. The insights gained from this research are expected to address existing gaps in the field of corporate governance and serve as a valuable reference for future researchers examining these variables, both within and beyond the context of Ghana.

1.6 Organization of the Study

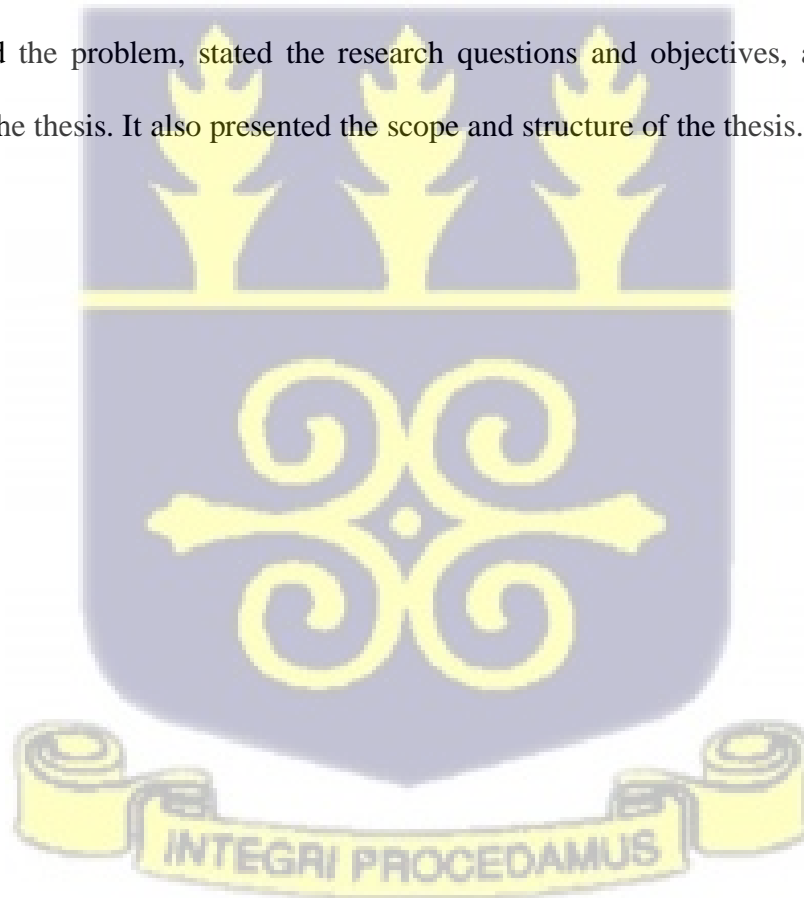
The study is organized into five chapters as outlined below. In chapter one, the research problem is introduced, and the underlying motivation for the study is presented. The chapter sets the stage for the research objectives and provides an overview of what the study aims to address. Chapter two delves into the theoretical and conceptual framework of the study. It also offers an extensive review of empirical literature related to audit committee characteristics, financial reporting quality, and firm performance. The chapter covers essential concepts and issues necessary for a comprehensive understanding of these subject, and finally a proposed conceptual framework is outlined, and key findings from the literature review are summarized. Chapter three provides details on the methodology employed in the study. It includes information on the population,

sampling techniques, data collection methods, empirical models used for analysis, and the techniques applied to interpret the results. The study's results are discussed and analyzed. Key findings and their implications are presented in chapter four of the study.

Chapter five serves as a summary of the entire study, offering a concise recap of the key findings. It also provides recommendations based on these findings and draws conclusions based on the research outcomes. Additionally, this chapter highlights the significant contributions of the study, discusses its limitations, and suggests potential directions for future research.

1.7 Chapter Summary

This chapter presented an introduction to the thesis. In doing so, it provided a background to the thesis, identified the problem, stated the research questions and objectives, and explained the significance of the thesis. It also presented the scope and structure of the thesis.



CHAPTER TWO



LITERATURE REVIEW

2.1 Chapter Introduction

Audit committees, financial reporting quality, and firm performance have widely been discussed both in the theoretical and empirical literature. This chapter in establishing a conceptual framework for the study would review topical highlights in the literature. The theoretical review focuses on the definition of concepts and critical exploration of theories relating to audit committees and their characteristics, financial reporting quality, and firm performance.

2.2 Concept of Audit Committee

Corporate boards are required to establish various sub-committees to ensure the effectiveness of their operations. These committees typically include the audit committee, appointment and nomination committee, executive committees, and compensation committees, among others, as deemed necessary to fulfill specific corporate obligations. However, this study specifically focuses on the audit committee (AC) within the corporate board. The audit committee is widely recognized as a crucial component of corporate governance mechanisms, as emphasized in prior studies (Brennan & Kirwan, 2015; Arens, Elder & Mark, 2012). Bedard et al. (2004) propose that the audit committee functions as a representative body of the corporate board, entrusted with the responsibility of safeguarding and advancing the economic interests of the shareholders. The effectiveness of their role is contingent on the presence of qualified and dedicated independent members within the committee. In practice, the audit committee is expected to predominantly consist of independent non-executive directors. Marx (2009) observes that this composition of the audit committee makes them more effective in reviewing or supervising the executive directors in the preparation and reporting of financial statements.

Audit Committees are widely recognized as a valuable component of corporate governance (Brennan & Kirwan, 2015; US Securities and Exchange Commission, 2003; UK Financial Reporting Council, 2006). These committees play a crucial role in assisting the board of directors in fulfilling their corporate governance and oversight responsibilities, particularly regarding the preparation and presentation of financial statements and the management of risks and adherence to established internal control systems. The audit committee is often viewed as the linchpin of a reliable and trustworthy financial reporting system. In accordance with the guidelines outlined by the US Securities and Exchange Commission (2003), the committee's primary function is to offer advice and recommendations to the board of directors within the framework of its terms of reference or charter. This advisory role enhances the credibility and integrity of the internal control and financial reporting systems while bolstering trust in a company's financial reporting (Alzeban & Sawan, 2015). Additionally, audit committees are responsible for overseeing internal controls, managing risks, and providing an authoritative platform for resolving any disagreements or disputes among various stakeholders.

2.3 Role of the Audit Committee

The audit committee plays a wide range of roles, which are significant for the success of an organization. AC helps to minimize the extent of the perceived information asymmetry; hence, it mitigates managers' hidden agenda (Jensen & Meckling, 1976). The audit committee (AC) plays a crucial role in addressing concerns related to information asymmetry (McMullen, 1996). Additionally, it serves to protect the interests of the company's primary stakeholders, as emphasized by (McDaniel et al., 2002), by improving the transparency and disclosures made in audit reports (Barako et al., 2006).

More so, AC facilitates the setting up of the internal audit departments within the organization. This is in the form of employing personnel who are suitably professional, knowledgeable, and capable. According to Bagais and Aljaaidi (2020), the AC also determines how appropriate risk assessment procedures are, as well as how often and how broad audits should be conducted, considering the type of firm involved, its size, and the complexity of its operations. The audit committee (AC) is responsible for evaluating the internal auditor's work and monitoring how management responds to the findings and recommendations presented by the internal auditor (Alzeban & Sawan, 2015).

In addition, one of the audit committee's roles is to monitor the firm's financial performance and financial reporting. The audit committee is likely to have a substantial impact on auditor selection, dismissal, remuneration, audit substance and scope, auditor independence, and conflict resolution between auditors and executive management in this environment (Carcello & Neal, 2000). AC ensures compliance with corporate legal and ethical requirements, as well as the maintenance of preventive fraud controls, in addition to monitoring the accuracy of the company's accounting procedures (Turley & Zaman, 2004).

The Financial Reporting Council (FRC, 2015) claims that AC safeguards the interests of investors and other stakeholders through its independent supervision function of the yearly financial reporting process. The AC's responsibility is to examine and keep track of how management has responded to the findings and suggestions of the internal audit function as they work toward achieving their stated goals (Alzeban & Sawan, 2015). Above all, the AC works as a corporate governance mechanism since it examines the financial data of the company and helps the internal audit function and financial accountants with their work.

2.4 Characteristics of the Audit Committee

There are several proposed characteristics that audit committees should possess to be effective and efficient in their oversight duties. The following are some of the suggested characteristics, amongst others including diversity, independence, expertise, and size of the AC (Alqatamin, 2018; Madawaki, 2013).

2.4.1 *Audit Committee Independence*

The independence of an audit committee (AC) is typically determined by the presence of a larger proportion of non-executive directors within the committee. Global regulations, such as the Sarbanes-Oxley Act of 2002 (SOX Act), often require a significant number of AC members to be independent directors. The Ghanaian Code on Corporate Governance (2020) reinforces this by recommending that firms listed on the Ghana Stock Exchange maintain an AC with a minimum of three members. This requirement aligns with the guidance provided by the Blue-Ribbon Committee (1999) and the Financial Reporting Council (2015). However, in the interest of independence, a company's chairperson may be a member of the AC but cannot hold the position of the AC's chairperson (Nekhili et al., 2016; Akhigbe & Martin, 2006). The Cadbury Report (1992) further emphasizes that, to foster independence, AC positions should be occupied by non-executive directors. Non-executive directors are considered suitable for these roles because they are less directly influenced and can make decisions based on their impartial judgment. The independence of the audit committee is crucial for effective oversight of the company's financial reporting process, encompassing the integrity of financial statements, the efficiency of internal controls, and the supervision of both internal and external auditors.

The performance of ACs is often influenced by the degree to which they are connected to company management. In other words, higher performance is typically achieved when AC members are free

from any dependence on management and do not have personal or financial ties to company management, a characteristic commonly associated with affiliated directors.

2.4.2 *Audit Committee Size*

Appiah and Amon (2017) define the AC size as the number of directors on the audit sub-committee of a corporate board. This is the potential manpower available for the function of the audit committee. The Sarbanes-Oxley Act (2002) and Ghana Corporate Governance code (2020) suggested that listed firms should set up an AC with at least three members consisting of non-executive directors. There have been several debates among studies, as to either having a large or small board. According to Jensen (2001), having a smaller audit committee increases the effectiveness of audit committee oversight and control. Similar to this, Lipton and Lorsch (2002) stated that big audit committees allow for raucous behavior, which weakens the committee's monitoring role. Large audit committee sizes are linked to delays and administrative bottlenecks (Goodstein, Gautam & Boeker, 2004). Goodstein et al. (2004) further report that smaller audit committee sizes can reduce the delay in decision-making resulting from bureaucratic procedures. Large audit committees, however, can devote more time and resources to monitoring the financial reporting process and internal control systems, according to Anderson and Orsagh (2004). Simply, put a large audit committee enables its members to divide the responsibility and dedicate more time and resources to managing the committee and identifying fraud. Similar to this, larger audit committees can devote more time and effort to monitoring management, according to Monks and Minow (2011). For efficient supervision, organizations need larger audit committees (Adams & Mehran, 2002). According to Kalbers and Fogarty (1993), a sizable AC can enhance the performance of the committee and increase its influence inside the organization. Larger size,

however, may have detrimental effects on the board's efficacy and, as a result, the firm's performance (Switzer & Tang, 2009; Guo & Kumara, 2012).

2.4.3 Audit Committee Financial Expertise

An AC financial expert is someone who understands GAAP and financial reporting and can assess the overall implementation of those principles in terms of accounting estimates, accruals, and revenue (Sarbanes Oxley Act, 2002). He or she should also have experience performing audits and assessments of financial reports with a wide range of complexity in accounting difficulties, as well as a general understanding of internal accounting controls; and an understanding of the audit AC functions (Trautman, 2013). The Ghana Corporate Governance code (2020) recommends that at least one member of the audit committee must have either academic or industrial experience background in accounting or finance. This view is supported by the Higgs Report (2003) as well. Higgs Report (2003) suggests that experience in audit, finance, and accounting improves the technical ability of the AC in performing their responsibilities. AC members who have financial expertise, that is experience or knowledge in either accounting, finance, and or auditing have greater interaction with their internal auditors (Ghafran & O'Sullivan, 2013) and minimize the tendency of setting up weak internal control systems (Krishnan, 2005). According to the United Kingdom Corporate Governance Code (2012), the board and its committees should have the appropriate balance of skills, experience, independence, and company knowledge to enable them to discharge their respective duties and responsibilities effectively.

2.4.4 Audit Committee Industry Expertise

The industry experts of the audit committee are those members who have broad business knowledge relevant to the company's business as stipulated by the Ghana codes of Corporate Governance (2020). More so, these are members who are knowledgeable in the operations and

conditions affecting the business of a firm. Additionally, an AC that involves industry experts will have a greater understanding of the dynamics of the industry and will be able to interact more efficiently with the auditor (Cohen et al., 2014). However, the audit committee's industry expertise shows that AC members have had comparable experiences with management.

It has been argued by Badolato, Donelson, and Ege (2014), that having only accounting/ financial experts on the AC is not sufficient enough to ensure the quality of the various corporate activities.

Countering the findings of Badolata et al. (2014), Cohen et al. (2014) argued that the status of AC might not be an issue; rather, AC members with accounting and industrial expertise.

2.4.5 Audit Committee Legal Expertise

AC legal experts are the directors with industrial or academic skills in legal matters among the members of the committee. Krishnan, Wen, and Zhao (2011) argue that members of the AC with legal backgrounds are stronger on legal issues. This helps the committee to be careful with legal risks that may emanate from any misappropriation in a firm's activity. They further propose that firms could engage non-executive directors with legal backgrounds to mitigate legal risk. Although legal or litigation risk is a concern for all directors on the board, members with specialized legal knowledge will be particularly burdened and look out for possible breaches. Furthermore, Krishnan et al. (2011) posit that audit committee members with legal expertise can meticulously scan internal control systems to identify the possible threat that may lead to liabilities arising from financial figures misstatements.

Companies may engage lawyer-directors to deal with complex legal issues such as patents, mergers, and acquisitions, rather than directly improving the quality of financial statements. Such

directors on the AC may not be offering formal legal counsel like a company lawyer, but such members can indirectly help to limit liabilities, legal risk, and misstatement (Krishnan et al., 2011).

2.4.6 *Audit Committee Gender Diversity*

Incorporated board diversity is examined from several angles, including experience, gender, nationality, and skill set (Solimene, Coluccia, & Fontana, 2017; Pletzer et al., 2017). Gender diversity is emphasized in this study. The gender diversity of the AC is measured by how many female directors (both inside and outside) are present. Due to different information, abilities, experiences, ideas, and behaviors, diversity on the board has positive effects (Solimene et al., 2017). According to Pletzer et al. (2015), a higher percentage of women on corporate boards may benefit the company in terms of fresh, strategic advantages and desirable leadership characteristics being introduced into the boardroom.

However, findings from the study of Milliken and Martins (1996) advised caution because diversity is a double-edged sword in and of itself. That is, it has the potential to help the boards and its sub-committees' aims, while also causing undesired results such as boardroom conflicts. Srinidhi et al. (2011) argued that women are more independent in decision-making, less tolerant of unethical behavior, and take a lower risk as compared to men. These are a few arguments in favor of women being on any sub-committee such as the audit committee (AC).

2.5 **Theoretical Review**

In this chapter, the study examines the theories that form the basis of the study.

2.5.1 *Agency Theory*

Agency theory has been extensively applied in various aspects of corporate governance research, as seen in the works of Davis, Schoorman, and Donaldson (1997) and Dedman (2004). Berle and

Means (1932) asserted that the interests of management and directors differ from those of the firm's owners. Similarly, Jensen and Meckling (1976) proposed that firms should be structured to minimize agency costs. Dellaportas et al. (2012) noted that managers and owners consistently have different objectives, which can manifest in various ways, indicating an inherent conflict of interests. The differences in the quantity and nature of information available to managers and shareholders complicate the agency problem (Jensen & Meckling, 1976; Dellaportas et al., 2012).

As a result, managers are often more deeply involved in business operations for longer periods than shareholders, leading to information asymmetry (Aboody & Lev, 2000). This information gap can lead to managers prioritizing their goals over shareholders' wealth maximization interests, resulting in agency costs. Increased agency costs necessitate monitoring mechanisms to ensure that managers adhere to their contractual obligations (Huang, 2006). According to agency theory, these monitoring systems should align with the objectives of both management and owners to prevent conflicts of interest and opportunistic behaviour by managers (Jensen & Meckling, 1976).

Various governance mechanisms can be employed to align the interests of owners and management, including both internal and external devices, such as boards of directors, ownership concentration, and external auditors (Fama & Jensen, 1983). The establishment of an independent audit committee (AC) comprised of directors with specific qualifications like independence, expertise, and experience is one approach to curbing self-serving behavior by agents (Wiseman et al., 2012). According to agency theory, the AC should possess certain attributes that enable its members to function effectively and oversee various aspects of a firm, including the internal control process, financial reporting, and risk management. Additionally, audit committee members

with expertise in areas like finance, industry, and law can better comprehend financial misrepresentation and the potential legal costs resulting from such misrepresentation.

Furthermore, diversity within the audit committee, such as the inclusion of female directors, is viewed as beneficial. This diversity brings about a broader range of knowledge, skills, experiences, ideas, and behaviors (Solimene et al., 2017). Therefore, it is expected that companies with stronger audit committees will provide higher-quality monitoring for the benefit of stakeholders and investors (McDaniel, Martin & Maines, 2002).

2.5.2 *Resource Dependency Theory*

The study of Pfeffer and Salancik (1978) laid the foundation for the resource dependency theory, which asserts that organizations are interlinked with external resources. According to their perspective, these external resources have a significant influence on an organization's behavior. In the context of this theory, organizations heavily rely on resources, which are a crucial element of their power. These external resources, such as labor, materials, and capital, are vital to an organization's functioning. The resource dependency theory posits that the board of directors can assist organizations in reducing their dependence on external resources or in securing these resources. Therefore, companies employ boards of directors to connect with significant external entities with which they have relationships (Pfeffer, 1972).

Cohen et al. (2007) emphasize the role of governance mechanisms as tools to help organizations achieve their strategic objectives. According to Hillman, Cannella, and Paetzold (2000), stakeholders may rely on the competence of the board, including members of the audit committee, to oversee the actions of managers and the organization's pursuit of its goals. Furthermore, the resource dependency theory acknowledges that the role of directors, including members of the

audit committee, extends beyond minimizing uncertainty. They bring valuable expertise in various strategic areas, such as the financial reporting process, the audit process, and the internal audit process.

2.6 Firm Performance

Companies' performance is subject to evaluation by investors worldwide before engaging with a firm (Bozec, Dia, & Bozec, 2010). The process of assessing the efficiency and effectiveness of a firm's actions constitutes its performance (Bartoli & Blatrix, 2015). According to Bititci, Carrie, and McDevitt (1997), firm performance involves managing organizational performance to align with corporate, functional, and strategic goals. The company's financial statements serve as a tool for appraising firm performance. Consequently, a high-performing company will commend management for providing high-quality disclosures (Herly & Sisnuhadi, 2011). Corporate governance significantly influences a firm's performance by safeguarding it against potential financial challenges and fostering substantial growth (Al-Matari et al., 2014). Hence, corporate governance is vital for enhancing firm performance.

Performance measurement show crucial data that empowers management to monitor a firm's performance, identify bottlenecks, and implement measures to optimize resources (Waggoner, Neely & Kennerley, 1999). Firm performance is often gauged using either accounting-based or market-based metrics. Previous studies employing Tobin's Q as a proxy for firm performance include (Mousa et al., 2012; Saibaba, 2013; Sami et al., 2011; Zeitun & Gang Tian, 2007). Other studies have used metrics such as Return on Assets (ROA) (Obiyo & Lenee, 2011; Rouf, 2011; Swamy, 2011) and Return on Equity (ROE) (Muritala, 2012; Moh'd & Obeidat, 2013).

In this study, Tobin's Q was chosen as the performance metric of focus. The selection of Tobin's Q over other possible performance measures is based on several reasons. Tobin's Q is a widely recognized and accepted financial performance metric in the context of corporate finance. It is employed to assess the relationship between a firm's market value (market capitalization) and the replacement cost of its assets (Mousa et al., 2012). It serves as a traditional measure of projected long-term business performance (Bozec, Dia, & Bozec, 2010). Tobin's Q as a financial metric offers a comprehensive perspective on a firm's performance by considering both the market's valuation of the company and the tangible value of its assets (Sami et al., 2011). More also, as stated by Zeitun and Gang Tian (2007), Tobin's Q mirrors the market's perception of a company's prospects. It encompasses not only historical financial data but also market sentiment and expectations, which are crucial for comprehending a firm's financial health and outlook.

Saibaba (2013) highlighted that since audit committees primarily focus on financial oversight and accuracy, Tobin's Q is directly relevant in achieving it. It reflects how effectively the firm manages its assets and generates returns for shareholders. Furthermore, Tobin's Q enables meaningful comparisons among companies and industries, making it a useful tool for benchmarking and evaluating a firm's performance in relation to its peers (Bozec, Dia, & Bozec, 2010). Finally, a high Q ratio indicates that a firm has effectively leveraged its investments to create a company with a market value exceeding its book value, and vice versa (Kapopoulos & Lazaretou, 2007). Finally, this metric can reveal firm's potential for future growth, which may result from factors unrelated to managerial decisions, such as the company's level of profitability (Shan & McIver, 2011; Demsetz & Villalonga, 2001).

2.7 Financial Reporting Quality

Financial reporting is one of the most essential accounting system products that aims to offer users the necessary information about the company's profitability and performance, to make informed decisions (Mohammadi, 2014). The accuracy of reported information is one aspect of financial reporting quality that helps to better describe a company's operations. In line with the Accounting Standards Board's (ASB) proposal, the ultimate goal of financial reporting quality is to keep informed shareholders and potential stakeholders, so they may make informed decisions and evaluate the firm's predicted performance.

Rajgopa and Venkatachalam (2011) suggested that an improved FRQ is the reduction of problems related to information asymmetry caused by agency conflict. According to Jonas and Blanchet (2000), financial reporting quality is not only a finished output; its quality is determined by various components. This includes the company's transactions, the choice of applied accounting principles, and knowledge of the judgments made. Thus, the audit committee oversees and supervises, to ensure the overall quality of each process. Choi and Pae (2011) asserted that though companies are mandated to publish financial statements guided by accepted accounting principles, quality may vary from company to company. That is, FRQ is the faithfulness of the information conveyed by the financial reporting process. However, the difference in the quality of financial statements may be a result of managers' manipulations to show a certain level of a firm's performance.

However, leading academics including Gao and Zhang (2015) argue that most earnings management practices are always to the benefit of shareholders.

Furthermore, this study employs earnings management as a proxy for financial reporting quality.

"Earnings management occurs when managers use judgment in financial reporting and in

structuring transactions to alter financial reports to either mislead some stakeholders about the underlying economic performance of the company or to influence contractual outcomes that depend on reported accounting numbers" (Healy & Wahlen, 1999 p. 368). Managers may engage in earnings management activities because they have the freedom to make accounting or operational decisions, and to conceal confidential information from financial statement users. Furthermore, according to Sun and Rath (2008), managers express judgment for concealing actual performance to gain from contractual conditions or influence regulatory judgments.

2.8 Conceptual Framework

The present study's framework is grounded on previous empirical studies (Rahman, Meah & Chaudhory, 2019; Al-Matari, Al-Swidi, & Fadzil, 2012; Badhabi, & Ku Ismail, 2017; Soliman & Ragab, 2014). Based on the literature we demonstrate the interrelationship among the various constructs of the study as depicted in Figure 1. In Figure 1, the study first identifies the AC characteristics that are found to impact the performance of a firm. These characteristics include independence, size, financial expertise, industry expertise, legal expertise, and gender diversity. In a similar vein, the framework shows how AC characteristics influence financial reporting quality, and how financial reporting quality affects firm performance. In addition, the framework controls for each relationship.

This current study is different from the existing literature by advancing that the effect of one of AC oversight duties which is financial reporting quality is a mediating factor that mediates the relationship between AC characteristics and firm performance. Accordingly, when the financial reporting process is overseen and monitored effectively by the AC, it reduces the opportunity for individuals (managers) to engage in fraudulent acts and earnings management. This may show an

enhanced level of performance in a firm. We support our argument with a conceptual framework depicting the mediating role of financial reporting quality in the relationship between AC characteristics and firm performance. The conceptual framework is shown in Figure 1.

Figure 1: Conceptual Framework – Mediating Role of FRQ in the AC-Firm Performance nexus



(Source: Author's construction)

2.9 Empirical Literature Review and Hypotheses Development (AC characteristics, financial reporting quality, and firm performance)

Several studies have been written in line with the impacts of AC and its characteristics on firm performance. Existing evidence suggests that AC can affect firm performance. (e.g., Koutoupis & Bekiaris, 2019; Aldamen et al., 2012, Al-Mantari, 2013).

2.9.1 *AC Independence and Firm Performance*

The influence of Audit Committee (AC) independence on firm performance has been the subject of investigation in several prior studies (e.g., Alqatamin, 2018; Koutoupis & Bekiaris, 2019; Aanu, Odianonsen, & Foyeke, 2014; Al-Matari, Al-Swidi, & Fadzil 2012).

For instance, in the study conducted by Alqatamin (2018), AC independence and its impact on firm performance were examined. The study analyzed panel data from 165 listed firms over three years and used Return on Assets (ROA) as a proxy for firm performance. The analysis was conducted using panel regression, and the results indicated a positive and significant relationship between AC independence and firm performance. This finding aligns with previous research, such as the study by Aanu, Odianonsen, and Foyeke (2014), which also reported that AC independence enhances firm performance. Aanu et al. (2014) studied 25 manufacturing companies in Nigeria over the period 2004-2011. They used three proxies for firm performance (ROA, ROE, ROCE) and employed both panel data analysis and Pearson Moment correlation. In contrast, Koutoupis and Bekiaris (2019) found a negative relationship between AC independence and Return on Assets (ROA), which serves as a proxy for firm performance. Their study used panel data from a mixed sample of 30 companies over the years 2008 to 2012 in Italy and Greece. Consequently, existing studies have suggested that there is insufficient evidence to conclusively support a significant positive impact of higher AC independence on corporate performance (Xie et al., 2018; Zabri et al., 2016; Bhagat & Black, 2002).

Moreover, Mohammed et al. (2019) reported that AC independence and the presence of an AC improve firm performance in the Iraqi context. However, Fuzi et al. (2016) conducted an extensive literature review and found mixed results regarding the relationship between independence and

performance. These empirical findings suggest that higher AC independence is associated with improved financial reporting quality and, subsequently, better firm performance.

H1a: There is a relationship between AC independence and firm performance of listed firms in Ghana.

2.9.2 AC Size and Firm Performance

Most global practices in good corporate governance require that a minimum number of three non-executive directors should serve on the audit committee (Smith Report, 2003; Cadbury Report, 1992). Previous literature has reported that AC size is a determinant of their effectiveness (Herdjiono & Sari, 2017). However, the results from earlier studies reveal inconclusive debates on AC size, as to whether to maintain a small or large size. According to the resource dependency theory, large AC size is regarded as highly resourceful as they possess diverse skills, expertise, and experience. Yasser and Al Mamun (2016) and Al-Matari (2013) investigated the relationship between audit committee size and their performance. They recommend that if the size of the AC is large, it will enable the committee workload to be shared which improves efficiency and effectiveness. On the other hand, as compared with small size AC, that may lack diversity of skills and knowledge, and hence becomes ineffective. However, its high number may be a double-edged sword, where members may tend to lose focus and be less participative of any activity. Furthermore, Wu, Habib, and Weil (2012) suggested in favor of a small audit committee size. They believe having a smaller AC size may be less encumbered with bureaucratic problems. Thus, helps them possess greater control of corporate processes to ensure quality. More so, it is argued that audit committees that have larger sizes are characterized by delays in decision-making (Raghunandan & Rama, 2007). In a similar vein, smaller AC sizes may be effective in impacting

firm performance because they may be more focused on addressing any financial issues challenged by a company (Yah, 2006).

Relevant to the resource dependency theory, the effectiveness of an audit committee increases as the size of the committee increases. Hence, making them competently capable of reducing the likelihood of fraud, lowering company risk, and increasing available resources (Al-Ghamdi, 2012). This is necessary for improved firm performance as more resources would be available to address the issues faced by the company. Aldamen et al. (2012) and Yasser and Al Mamun (2016) demonstrated through empirical research that there is a positive and significant relationship between AC size and firm performance.

H1b: There is a relationship between AC size and firm performance of listed firms in Ghana.

2.9.2 AC Financial Expertise and Firm Performance

Extant research has shown the positive impacts of accounting and finance competence on firm performance (e.g. Amer, Ragab & Shehata, 2014; Aldamen et al., 2012; Ashari & Krismiaji, 2020). Aldamen et al. (2012) indicated that an audit committee composed of directors with prior executive experience or financial knowledge is positively associated with company performance. Hamid and Aziz (2012) suggested that there is a positive and significant impact on company performance when the audit committee has directors with accounting and financial backgrounds, after investigating the sample of government-linked companies in Malaysia for 2005-2010. In addition, Ashari and Krismiaji (2020) investigated the effect of audit committee characteristics on a company's performance. Characteristics of the audit committee used include independence, size, competence (ACCO), and frequency of meetings on the financial performance (PERF) of manufacturing firms listed on the Indonesian Stock Exchange for the years 2016 and 2017. PERF

was measured and proxy with the return on assets (ROA); ACCO was measured using the percentage of audit committee members who have accounting and finance educational background. This study used a sample of 466 observations of publicly listed companies on the Indonesian Stock Exchange. The study found that the audit committee's financial expertise positively affects the company's performance. Alqatamin (2018) also sought to investigate the effect of audit committee characteristics on the company's performance. The sample consists of 165 non-financial companies listed on the Amman Stock Exchange (ASE) over the period 2014-2016. However, results revealed an insignificant association between audit committee financial expertise and firm performance.

H1c: There is a relationship between AC financial expertise and firm performance of listed firms in Ghana.

2.9.3 AC Industry Expertise and Firm Performance

During the financial crisis of 2008-2009, the significance of directors' industry experience became a central point of discussion in corporate governance. Directors with industry knowledge are better equipped to comprehend a company's operations and financial conditions, analyze relevant information, and provide more effective monitoring (Wang et al., 2015). Bedard and Gendron (2010) highlighted that industry expertise can enhance the monitoring capabilities of Audit Committee (AC) members, enabling them to oversee the firm's financial reporting process more effectively. This is particularly beneficial for internal audit functions and addressing industry-related risks. Cohen, Hoitash, Krishnamoorthy, and Wright (2014) observed that financial statements often involve numerous estimates, and industry expertise can assist the AC in understanding and evaluating industry-specific estimates. For instance, warranty obligations are

closely tied to industry and product specifications, making industry expertise crucial for ensuring the accuracy of warranty estimates.

Furthermore, an AC that includes industry experts can better grasp the dynamics of the industry and communicate more efficiently with auditors (Cohen et al., 2014). However, the presence of industry expertise on the audit committee implies that AC members share similar experiences with management. This could lead to directors being more empathetic to the challenges managers face, potentially resulting in weaker monitoring and more adverse behavior by managers. In a similar vein, prior experience in a firm's industry may reduce the effective separation between directors and management, as they may have common connections from within the industry, share the same professional circles due to industry events, or have crossed paths in their careers (Wang et al., 2015).

Leventis and Weetman (2004) propose that having an industry expert on the audit committee can assist the committee in effectively analyzing the disclosure timing behavior of competitors and staying updated on accounting methods and techniques recently adopted by industry peers. According to the Resource Dependence Theory, AC members with valuable non-accounting expertise, such as industry and business knowledge, can enhance AC effectiveness. Accordingly, Badolato, Donelson, and Ege (2014) argue that preventing earnings management requires more than just having an accounting or financial expert on the AC; it necessitates a combination of financial expertise and the high status of AC members. In line with this perspective, Hayes (2014) suggests that a lower status has made ACs less efficient and more susceptible to misreporting. Cohen et al. (2014) support these findings, adding that status may not be the primary concern;

instead, AC members with accounting and industry expertise tend to outperform those with only accounting expertise.

H1d: There is a relationship between AC industry expertise and firm performance of listed firms in Ghana.

2.9.4 AC Legal Expertise and Firm Performance

Guided by the resource dependence theory, Cohen et al. (2008) asserted that AC members with valuable non-accounting expertise such as legal expertise could also contribute toward AC effectiveness. The performance of a firm is threatened when there is weak risk management. The audit committee is charged with overseeing the process of risk management to promote company performance. Thus, an AC with legal directors would ensure effectiveness in that process (risk management). This is because of their sensitivity to litigation risk that may arise as a result of misleading financial statements (Krishnan et al., 2011). These legal directors on the AC understand legal liability and are more alert. As a result of their natural focus and attention to legal risk, more emphasis is placed on internal controls and compliance (Langevoort, 2007).

Furthermore, the financial statement forms an integral tool used to evaluate a firm before any engagement with it. It is thus argued that to ensure advanced firm performance, AC with legal experts helps deal with specific legal issues affecting the financial statement e.g., issues relating to patents, mergers, and acquisitions (Krishnan et., 2011). Additionally, AC members with legal directors ensure greater compliance with laws and regulatory policies. All this puts the firm in the good standing books, which is a good indicator of a well-performing firm. However, based on the director's profile, most of the AC legal directors do not have accounting backgrounds, which may impair their effectiveness in overseeing the audit process and financial reporting process.

Similarly, they are likely to fail in solving disputes that may arise between managers and auditors in dealing with audit-related and financial issues. In line with the AC legal expertise, Krishnan et al. (2011) found out that the inclusion of legal experts on the audit committee would improve corporate processes in general, which would in turn affect the performance of a firm.

H1e: There is a relationship between AC legal expertise and firm performance of listed firms in Ghana.

2.9.5 AC Gender Diversity and Firm Performance

The introduction of diversity on the audit committee has been widely documented by coming literature. This is where they elaborated on the difference in gender in terms of management style, communication process, and decision-making (Ittonen, Miettinen & Vahamaa, 2011). Following empirical studies, it has been found that the presence of females on the audit committee enhances the monitoring process, leading to a more competent board. (Wahid, 2019). The corporate governance system is strengthened with female directors' involvement, thus improving disclosure quality (Gul et al., 2011). The improvement in disclosure quality, thus, would bring about improved earnings quality (Oradi & Daejezi, 2019). Usman, Zhang, Makki, and Khan, (2019) assert that female directors reduce the probability of loan default and the cost of debt. This is because inherently, women are great financial savers and often opt for monies accrued within rather than outside. This translates into their leadership style and how they conduct business. The performance of a firm can be affected immensely by conflict between management and owners. Nielsen and Huse's (2010) findings, suggested that the female directors on the audit committee reduce the level of conflict that exists in the company. They asserted that because of the peaceable nature affiliated with women, they help find alternative solutions to resolving conflicts. More so, more attention is paid to risk management, due to the sensitivity women have over financial losses

(Schubert, 2006). This is one important corporate process of a firm overseen by the AC to ensure improved performance.

In this vein, Ho, Li, Tam, and Zhang (2015) examined the presence of female members in their relationships. Their results suggested that the AC's gender diversity improves the internal control environment and reduces the likelihood of restatements. However, the studies about AC gender diversity are inconclusive. Findings from Tajfel and Turner (2004) suggested that ACs with gender diversity may experience higher emotional conflicts and are less cooperative. Thus, affects their interactions and control of the firm. Similarly, studies report that gender diversity on the AC is linked with a higher level of conflicts among themselves. Hence, "consensus" cannot often be obtained, and impacts negatively on firm performance. Previous studies have yielded varying results when examining the relationship between gender diversity on corporate boards and firm performance. Some studies have reported a positive and significant association between gender diversity and firm performance (Miller & del Carmen Triana, 2009; Campbell & Mínguez-Vera, 2008; Lückerath-Rovers, 2013). These findings suggest that having a more diverse gender composition on corporate boards can have a favorable impact on a company's performance.

However, there are also studies that have found no significant relationship between the proportion of females on the board and company performance. For instance, Rose (2007) found no such relationship in the context of Danish companies, and Carter et al. (2010) reached a similar conclusion when examining U.S. companies. These studies indicate that the influence of gender diversity on firm performance may vary depending on the specific context and the factors at play in each organization or region.

H1f: There is a relationship between AC gender diversity and firm performance of listed firms in Ghana.

2.10 AC Characteristics and Financial Reporting Quality

Audit committee characteristics have affected the quality of financial reporting. Prior literature has shown mixed findings in relation to the two.

2.10.1 AC Independence and Financial Reporting Quality

One of the primary responsibilities of the audit committee (AC) is to oversee the financial reporting process of the firm. AC independence is critical in ensuring that they can provide unbiased assessments of financial statement quality. Klein (2002) argued that independent AC members are appointed to act objectively in order to produce unbiased financial reports. This implies that a greater number of AC members should be non-executive directors who are independent of the day-to-day management activities. Abbott et al. (2014) emphasize that independent AC members are more likely to be objective, and this reduces the chances of financial reporting manipulation going unnoticed. Furthermore, independent AC members are crucial for ensuring the effectiveness and reliability of financial reports, as they are not directly involved in the firm's daily operations. This allows them to play a strong scrutiny and monitoring role over the financial reporting process. Existing studies, such as Arslan et al. (2014), have found that the independence of AC members enhances the quality of financial reports and overall performance. Evidence from the earnings management literature suggests that the degree of independence of an audit committee is positively associated with a firm's financial reporting quality (Nuryanah & Islam, 2011; Yasser et al., 2011; Bouaziz & Triki, 2012; Arslan et al., 2014). Additionally, Beasley et al. (2000) proposed that the quality of financial reporting is significantly linked to audit committee independence, meaning that financial statement fraud is more likely to occur in firms

with less independent audit committees. However, there are studies that present different findings. For instance, Lin, Li, and Yang (2006) reported an insignificant and weak positive relationship between audit committee independence and earnings quality. Similarly, Soliman & Ragab (2014) found no significant relationship between discretionary accrual levels and AC independence in the context of Canadian firms. Pomeroy & Thornton (2008) also found no significant association between financial reporting quality and audit committee independence in their research.

H2a: There is a relationship between AC independence and financial reporting quality listed firms in Ghana.

2.10.2 AC Size and Financial Reporting Quality

Dhaliwal et al. (2010) have considered AC size to be highly resourceful, due to diversity in expertise, skills, and experiences. Inconclusive findings have been documented in regard to the audit committee size, as to either have a small or large size. Raghunandan and Rama (2007) suggested that the number of meetings is increased by the size of the audit committee. The increase in the number of meetings is argued to provide a more effective monitoring role over the financial reporting process. Hence, promotes better financial reports. Leong et al. (2015) asserted that due to diversities, large AC size is more capable of reducing manipulations of earnings and enhancing the quality of financial reporting of a firm. Furthermore, the study of Yasser and Al Mamun (2016) suggested that large boards can allocate more resources, in terms of time and manpower to oversee the process of financial reporting. This implies a large audit committee allows AC members to spread over their workload easily among themselves, monitoring management and controlling fraudulent behavior. The large size of the AC is likely to have more independent directors (Xie, Davidson & DaDalt, 2003). This increase in independent directors empowers them to share unbiased opinions of the financial reporting process to ensure quality.

Interestingly, on the other hand, older studies have shown that audit committee is more efficient when they have a small number on the AC (Yermack, 1996; Jensen, 1993; Gautam & Boeker, 1994). Effective monitoring role and control are high when a smaller number of ACs involved in the process, asserted by Jensen (1993). In addition, Goodstein et al. (1994) postulated that corporate processes are overseen by large AC sizes, often resulting in delays and administrative bottlenecks. This is because when the workload is shared among a large size audit committee, it is expected that the views and opinions of all should be heard. Thus, this results in delays and more meeting times. More so, smaller AC sizes may be less burdened with organizational problems (Gautam & Boeker, 1994).

The relationship between Audit Committee (AC) size and Financial Reporting Quality (FRQ) has yielded diverse findings over the years, especially in the contexts of Malaysia, Pakistan, and Nigeria. In the context of Malaysia and Pakistan, Yasser and Al Mamun (2016) concluded that AC size is negatively and significantly associated with earnings management (EM). Similarly, in Nigeria, Abubakar (2016), Chi-Chi, and Friday (2016), and Miko (2016) found that AC size is negatively significant with EM, particularly in the form of discretionary accruals. This suggests that a larger AC is linked to a higher likelihood of reducing earnings management.

In contrast to these findings, Mohammed, Ahmed, and Ji (2017) and Ismail and Kamarudin (2017) reported that AC size is positively and significantly related to accounting reporting manipulation. Their findings support the notion that larger ACs may be associated with an increase in creative accounting practices employed by management. The predictions made by the resource dependence theory align with the expectation that a larger AC size would be negatively related to Discretionary Accruals (DA), reflecting a potential constraint on earnings management. Additionally, a larger

AC is anticipated to be positively related to FRQ, as these committees may possess more diverse experiences, ideas, and expertise compared to smaller ACs. From the foregoing debate, this study hypothesizes that;

H2b: There is a relationship between AC size and the financial reporting quality of listed firms in Ghana.

2.10.3 AC Financial Expertise and Financial Reporting Quality

One of the characteristics of audit committees (AC) that is often linked to Financial Reporting Quality (FRQ) is the level of financial knowledge possessed by its members. According to the resource dependence theory, the role of the AC is to provide resources, including expertise and experience, that can help the organization gain competitive advantages, particularly in terms of FRQ (Tanyi & Smith, 2015). Therefore, having members with financial expertise can enhance the AC's effectiveness in its monitoring role in the financial reporting process. This is because accounting expertise may be particularly relevant for AC members, as "best practices" recommend that AC members be accountable for tasks requiring a high degree of accounting and financial knowledge (DeFond et al., 2005). Audit committee members with financial expertise can better understand accounting standards, policies, and the choices that impact financial reporting, which makes them more capable of identifying deceptive practices in the preparation of financial statements (Cohen et al., 2007).

Studies have produced divergent findings concerning the relationship between audit committee financial expertise and financial reporting quality. For example, Madawaki (2013) discovered a significant and positive association between audit committee members with financial or accounting expertise and earnings quality in Nigerian firms. This finding aligns with other research

by scholars such as Tanyi & Smith (2015), Bedard et al. (2004), and Xie et al. (2003), which have indicated that audit committee members with accounting or financial backgrounds are effective monitors in reducing earnings manipulation by management. Dhaliwal, Naiker, and Navissi (2010) also reported a positive relationship between the accounting/financial expertise of an audit committee and a firm's financial reporting quality, supported by Bedard et al. (2004), who argued that financial expertise within the audit committee reduces financial restatements and constrains the likelihood of managerial manipulation of financial reports.

However, some studies, such as those by Yang and Krishnan (2005) and Lin et al. (2006), failed to find any significant association between accounting or financial experts on the audit committee and financial reporting quality, measured as the level of earnings management. These authors suggest that financially knowledgeable audit committee members are more likely to prevent and detect material misstatements in financial reporting.

H2c: There is a relationship between AC financial expertise and the financial reporting quality of listed firms in Ghana.

2.10.4 AC Industry Expertise and Financial Reporting Quality

Krishnan et al. (2011) believe that other technical expertise of the audit committee is necessary for overseeing the financial reporting process. Such expertise includes the AC industry expertise. The industry expertise of the AC helps understand industry-specific estimates affecting the financial statements. This is because usually, financial statements include various estimates. For instance, warranty obligations are related to the industry and product specifications. Thus, industry expertise is essential to ensure the accuracy of the warranty estimate. The knowledge of the industry helps

the audit committee to identify any discretions on the financial statements, in regard to any industry item.

There is limited research on the relationship between industry expertise within the Audit Committee (AC) and Financial Reporting Quality (FRQ). However, Cohen et al. (2014) conducted a study that uncovered a positive correlation between AC industry expertise and the financial reporting process. They argued that the presence of industry experts within the AC can facilitate effective communication with external auditors, especially when technical expertise is required to comprehend industry intricacies. They also concluded that a lack of industry expertise overseeing the financial reporting process may necessitate a higher level of audit quality, resulting in increased audit fees. This could entail engaging specialized auditors with knowledge of the specific industry to understand or evaluate industry-specific estimates.

Conversely, having AC members with industry expertise might mean they share similar experiences and knowledge with the management. This exposure to the same challenges and difficulties encountered by managers can lead to a certain level of empathy, potentially resulting in weaker monitoring of the financial reporting process (Wang et al., 2015). Hence, the study tests the following hypothesis that:

H2d: There is a relationship between AC industry expertise and the financial reporting quality of listed firms in Ghana.

2.10.5 AC Legal Expertise and Financial Reporting Quality

Under the observation of both agency and resource dependency theory, AC with members who have non-accounting expertise such as legal can also affect accounting procedures to reflect its true state Cohen et al. (2008). Krishnan et al. (2011) asserted that legal expertise in the AC could

assist in ensuring better FRQ since the quality of financial reporting can be related to legal liability threats and their legal backgrounds require them to be more vigilant to such threats (Krishnan et al., 2011). However, the literature on AC legal expertise and FRQ is limited. The few that have been found include, Baxter and Cotter (2009) who used 309 firms in Australia to examine the influence of AC and EM. The Jones model (1991) and Dechow and Dichev (2002) were adopted as measures of earnings quality. The findings reveal that the AC legal expert is negatively and significantly associated with EM in both models. This suggests that legal experts in the AC reduce the magnitude of earnings manipulation provided by the management. Furthermore, in the study done by Krishnan et al. (2011), a sample of 1,000 firms for the three years of 2003 to 2005 was examined to find the relationship between legal expertise on corporate AC and FRQ in the US. They adopted the performance-adjusted model by Kothari et al. (2005) and the Jones model (1991) as proxies of FRQ. The study revealed a negative significant impact between the AC legal expert and DA. This indicates that legal expertise acts as a monitor rather than a mere signal to financial reporting. However, more recently, Shankaraiah and Amiri (2017) examined AC and FRQ in India. They employed a sample of 133 firms from 2002 to 2012. The result from the study shows that AC legal experts have a negative significant impact on DA. On the other hand, prior studies such as Jintawattanagul et al. (2016) considered the mediating role of the accrual's quality on the AC attributes and the cost of equity. They used 272 listed firms in Thailand from 2010 to 2012. The study found a negative non-significant relationship between AC legal experts and quality of accrual.

H2e: There is a relationship between audit committee legal expertise and financial reporting quality.

2.10.6 AC Gender Diversity and Financial Reporting Quality

Amran, Saad, Abdullah, and Ibrahim (2016) contended that women are highly rated in terms of adjusting transformational leadership fashion. There is extensive research on the effect of gender diversity on financial reporting quality. The results remain mixed so far. The study of Thiruvadi and Huang (2011) sampled listed companies for 2003 to examine AC gender differences and EM in the US. They adopted Ashbaugh et al. (2003) measurement of EM. They found that a female AC member mitigates EM by increasing the negative income and decreasing DA. Moreover, Martinez et al. (2016) studied the influence of female directors and FRQ in Spain. They maintained a sample of 920 firm-year observations for the period of 2004 to 2011. For this, they found a positive relationship between gender diversity and FRQ. On the other hand, using the Chinese setting, Ye, Zhang, and Rezaee (2010) did not find any significant relationship between gender diversity and earnings quality.

H2f: There is a relationship between audit committee gender diversity and financial reporting quality.

2.11 The Mediating Effect of Financial Reporting Quality and Firm Performance

Financial information provided by a company serves as a crucial resource for various market participants, helping to reduce information imbalances among investors, managers, regulatory agencies, society, and other stakeholders. This raises a fundamental question about the impact of financial reporting quality (FRQ) on a firm's subsequent performance. Firms that furnish high-quality financial information to the market's various participants enable them to operate under better conditions and with access to a higher level of information (Jo & Kim, 2007). Research on the relationship between financial reporting quality and firm performance has yielded diverse findings. For instance, Sohail and Aziz (2019) utilized three different measures as proxies for FRQ:

(i) conservatism; (ii) accruals quality; and (iii) earnings quality. They also employed the market-to-market/book ratio (MTB) as a proxy for a firm's financial performance.

The study analyzed data from cement manufacturing firms in Pakistan over the period from 2006 to 2017. The empirical evidence from the panel data analysis demonstrated a positive and significant influence of FRQ on a firm's financial performance (FP). Abnormal accruals were used to assess FRQ, and return on assets (ROA) served as a proxy for firm performance. The findings confirmed the existence of a direct relationship between FRQ and firm performance. In other words, an increase in income-increasing abnormal accruals, which indicates a decrease in accounting quality, was associated with an increase in ROA, and vice versa. For this, the study hypothesizes that;

H3: There is a relationship between financial reporting quality and firm performance.

H4: Financial reporting quality mediates the relationship between AC characteristics and firm performance (H4a-H4f).

2.12 Control Variable

This study incorporated control variables, namely debt-to-equity ratio, firm size, and firm age, as they are known to influence firm performance and have been frequently used in prior research. Firm size has yielded mixed findings regarding its impact on firm performance. Some studies have suggested that larger firms may be less efficient due to potential agency problems, increased government bureaucracy, and greater redundancy (Sun, Tong & Tong, 2002). However, other research, like Krishnan (2005) and Azeez (2015), has indicated that larger firms tend to perform better. Large firms may benefit from more resources that can be invested in monitoring financial quality and, consequently, enhancing firm performance. Furthermore, larger firms might be

associated with higher financial reporting quality since they face greater scrutiny in the market (Bala & Kumai, 2015; Fodio et al., 2013). Thus, this study anticipates a connection between firm size and financial reporting quality, even though Muhammad et al. (2016) found no such association.

The study also controlled for firm size (measured as the natural logarithm of total assets) and debt-to-equity ratio (measured as total debt divided by total equity), consistent with the approaches of (Abernathy et al., 2014; Davidson et al., 2005; Klein, 2002; Krishnan et al., 2011). Previous research has indicated that heavily leveraged firms tend to exhibit higher accruals or uneven accrual timeliness, which, in turn, can reduce the quality of financial reporting (Davidson et al., 2005; Krishnan et al., 2011; Saleem & Sultana, 2013). Financial constraints can diminish the quality of financial reporting because firms facing such constraints may resort to income-increasing earnings management to avoid potential losses (Park & Shin, 2004).

Additionally, firm age, which refers to how long it has been since it has been in existence. Firm age and firm performance have an ambiguous relationship. On one hand, well-established firms often outperform newly established ones due to the goodwill they have accumulated over time (Mousa et al., 2012). On the other hand, older firms might struggle to adopt new technologies due to their rigidity and complacency (Anderson & Reeb, 2012). Therefore, firm age was controlled for in the study to account for its potential influence on firm performance and financial reporting quality.

2.13 Chapter Summary

This chapter has synthesized literature on audit committee characteristics, firm performance, and financial reporting quality from both theoretical and empirical perspectives. We discuss key

terminologies in the context of the study and show the inspirations the current research draws from existing works. The chapter has also shown that audit committee characteristics account so much for the financial performance of a firm and its quality of financial reporting on economics in Ghana. Therefore, this study contributes immensely to literature by shedding light on the subject matter.



CHAPTER THREE

RESEARCH METHODOLOGY



CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Chapter Introduction

This chapter of the study lays the methodological foundations. It begins with a detailed discussion of the research paradigms that underpin this study, followed by the research design, population of the study, unit of analysis, data, and data source, and how the key constructs of the study are measured. The chapter ends with a discussion of the techniques used in the data analysis.

3.2 Research Paradigm

Research Paradigm is the principles and set of beliefs that shape the understanding of the researcher of the world they live in, or how a phenomenon is interpreted (Guba & Lincoln, 1994). This study adopts a positivist research paradigm. A quantitative research approach was employed in analyzing the research variables. This means that the knowledge generated would often be objective, free of time influences, and context-independent (Yilmaz, 2013). That is positivists apply a theoretical lens in investigating its subject matter to obtain a single, objective, and tangible reality (Creswell, 2009).

The researcher uses pure numerical data, which makes it difficult to influence the outcome of the research with personal values, beliefs, and biases. Thus, researchers who subscribe to the positive paradigm view themselves as neutral observers, independent of any findings generated (Guba & Lincoln, 1994). Additionally, the study focuses on formulating and testing hypotheses developed through existing theories. Hence, positivists employ deductive reasoning to advance theories that can be tested through observable social realities (Boateng, 2016).

3.3 Research Design

The prime objective of the study is to test the role of financial reporting quality in the relationship between AC characteristics and firm performance. The study, therefore, uses a quantitative design to conduct the investigation. Secondary numeric data is employed in quantifying the level of significance of our variable of interest.

3.4 Sample Size and Sources of Data

This study employs the use of firm-level data. The firms involved in the dataset are both financial and non-financial firms operating in various sectors in Ghana. Data for the study variables were collected from the GSE's Annual Report Ghana, Osiris (Moody's Analytic Company), and individual firms' websites. The data contains financial and non-information of 37 listed firms from 2007 to 2019. The study period was chosen purely based on data availability. This resulted in an unbalanced panel data of 352 firm-yearly observations for the analysis.

3.5 Data Analysis and Empirical Model

The Generalized Method of Moment estimator (System GMM) is employed to examine the relationship. In this study, System GMM is a better choice than the ordinary least square (OLS), as it provides results that are robust to outliers. It creates the opportunity to include the first lag of the dependent variables. More so, it addresses the issues of autocorrelation, endogeneity, and heteroscedasticity. Hansen & West (2002) summarize that GMM is: The System GMM is best suited for panel datasets with a timespan, T , smaller than measured units, N (Roodman, 2009). Consistent with that, the study has a cross-section of 37 firms over a time span of 13 periods.

To investigate the relationship between the dependent and independent variables in this study, the following models were specified:

$$FP_{it} = \beta_1 FP_{it-1} + \beta_2 ACIND_{it} + \beta_3 ACSIZE_{it} + \beta_4 ACFEXP_{it} + \beta_5 ACIEXP_{it} + \beta_6 ACLEXP_{it} + \beta_7 ACGDIV_{it} + \beta_8 FSIZE_{it} + \beta_9 DEQUITY_{it} + \beta_{10} FAGE_{it} + \epsilon_{it} \dots \dots \dots (1)$$

$$FRQ_{it} = \beta_1 FRQ_{it-1} + \beta_2 ACIND_{it} + \beta_3 ACSIZE_{it} + \beta_4 ACFEXP_{it} + \beta_5 ACIEXP_{it} + \beta_6 ACLEXP_{it} + \beta_7 ACGDIV_{it} + \beta_8 FSIZE_{it} + \beta_9 DEQUITY_{it} + \beta_{10} FAGE_{it} + \epsilon_{it} \dots \dots \dots (2)$$

$$FP_{it} = \beta_1 FP_{it-1} + \beta_2 FRQ_{it} + \beta_3 FSIZE_{it} + \beta_4 DEQUITY_{it} + \beta_6 FAGE_{it} + \epsilon_{it} \dots \dots \dots (3)$$

$$FP_{it} = \beta_1 FP_{it-1} + \beta_2 FRQ_{it} + \beta_3 ACIND_{it} + \beta_4 ACSIZE_{it} + \beta_5 ACFEXP_{it} + \beta_6 ACIEXP_{it} + \beta_7 ACLEXP_{it} + \beta_8 ACGDIV_{it} + \beta_9 FSIZE_{it} + \beta_{10} DEQUITY_{it} + \beta_{11} FAGE_{it} + \epsilon_{it} \dots \dots \dots (4)$$

Where;

FP= Firm Performance, FRQ = Financial Reporting Quality, ACSIZE = Audit committee Size, ACIND = Audit committee Independence, ACFEXP = Audit committee Financial Expertise, ACIEXP= Audit committee Industrial Expertise, ACLEXP= AC Legal Expertise, ACDIV= Audit committee Gender Diversity, FSIZE= Firm size, DEQUITY= Debt to Equity, FAGE= Firm Age, ‘it’ represents firm ‘i’ at time; ϵ_{it} is the stochastic error term.

3.6 Variable Measurement

The variables under investigation in this study are AC characteristics, financial reporting quality, and firm performance. AC characteristics are measured using various indicators. Earnings management is measured using discretionary accrual. Firm performance is measured using Tobin’s Q.

3.6.1 Firm Performance

There are several measurements for firm performance. However, the empirical literature largely groups these performance measures into accounting-based and market-based. This study employs

the Tobin's Q as a proxy for firm performance. This measurement combines both the market value and accounting measures. It is measured as the total market value of a firm divided by the book value of total assets. Prior studies have used Tobin Q in their measurement of firm performance (Saibaba, 2013; Muritala 2012; Zeitun & Tian, 2007).

3.6.2 Financial Reporting Quality

Earnings management was employed as a proxy for financial reporting quality in the study. This refers to the discretion managers have in deciding on accounting policies and taking actual activities that affect earnings to meet stated goals. The value of earnings management is determined by the extent of the discretion they have in deciding on what accounting policy to apply in any given situation. Hence, discretionary accruals (DA) are used as a proxy for earnings management (The discretionary accruals are computed for this study following the Jones model (1991) and improved by Pae (2005).

$$DA_{it} = TA_{it} - NDA_{it} \dots\dots\dots (5.1)$$

$$TA_{it} = (\Delta CA_{it} - \Delta Cash_{it}) - (\Delta CL_{it} - \Delta CD_{it}) - DEP_{it} \dots\dots\dots (5.2)$$

Where TA_{it} is the TA of firm i in year t . ΔCA_{it} is the change in current assets, whereas $\Delta Cash_{it}$ measures the change in cash and cash equivalents. On the other hand, ΔCL_{it} captures the change in current liabilities. Also, ΔCD_{it} is the change in debt in current liabilities. Finally, DEP_{it} measures the depreciation and amortization expense of a firm.

$$NDA_{it} = \beta_0 \left(\frac{1}{A_{it-1}} \right) + \beta_1 \left(\frac{\Delta REV_{it}}{A_{it-1}} \right) + \beta_2 \left(\frac{PPE_{it}}{A_{it-1}} \right) + \beta_3 \left(\frac{CFO_{it}}{A_{it-1}} \right) + \beta_4 \left(\frac{CFO_{it-1}}{A_{it-1}} \right) + \beta_5 \left(\frac{TA_{it-1}}{A_{it-1}} \right) + \varepsilon_{it} \dots\dots\dots (5.3)$$

Where A_{it-1} is denoted as the beginning balance of total assets, ΔREV_{it} is the change in revenue, PPE_{it} is the gross property, plant, and equipment. CFO_{it} denotes the current cash flow. CFO_{it-1}

is the lagged cash flow and TA_{it-1} is the lagged total assets. NDA_{it} is the fitted values from the equation (5.3), while DA_{it} is the residual or difference between total accruals calculated in equation (5.2) and non-discretionary accruals in equation (5.3), (that is, $DA_{it} = TA_{it} - NDA_{it}$).

3.6.3 Independent Variables

ACIND is measured as the number of non-executive directors divided by the size of the audit committee. Consistent with previous studies (Leung, Richardson & Jaggi, 2014; Oussii & Taktak, 2018; Chen et al., 2011).

ACSIZE represents the audit committee size. AC size is measured by the number of individuals (members) on the audit committee. Similar to existing literature (Shankaraiah & Amiri, 2017; Ayemere & Elijah, 2015; Ho & Kang, 2013)

ACFEXP represents audit committee financial expertise. The study measured the variable ACFEXP by dividing the number of audit committee members with a background in accounting, finance, and or auditing by the audit committee size. This is also consistent with previous studies (e.g., Ayemere, 2015; Wong, 2011; Sulaiman, 2017; Lin, Liu & Wang, 2009).

ACIEXP represents audit committee industry expertise. It is measured by the number of audit committee members with industry experience/expertise by the audit committee size. Researchers who used similar measurements (Cohen, et al., 2014; Kothari, Leone & Wasley, 2005).

ACLEXP represents audit committee legal expertise. It is measured by the number of audit committee members with legal experience/expertise by the audit committee size. Consistent with existing literature (Yang & Wand, 2011).

ACGDIV represents audit committee gender diversity. It is measured as the number of female audit committee members by the audit committee size. Also consistent with previous studies (Baxter, 2010; Van der Zahn & Tower, 2004).

3.6.4 Control Variable

Supplementary variables are included in the regression model to control other factors that influence audit committee characteristics and financial reporting quality. The control variables include debt to equity, firm size, and firm age. Similarly, in line with Abernathy et al. (2014) and Krishnan (2005), the study controlled for firm size (FSIZE) measured as the natural logarithm of total assets. More so, debt to equity (DEQUITY) is measured as the total debt to total equity ratio, which is consistent with (Davidson et al., 2005; Krishnan et al., 2011; Saleem & Sultana, 2013). Finally, following Gao and Huang (2016), Leung, Srinidhi, and Xie (2017), the study controlled for Firm age (FAGE), by measuring it as the number of years in existence.

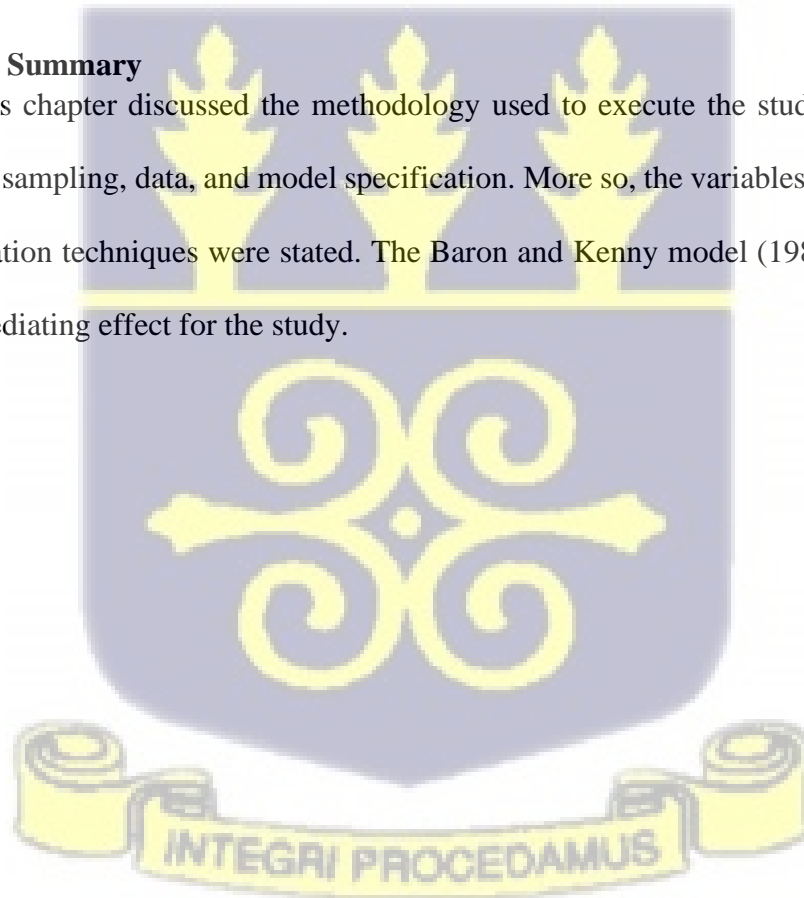
3.7 Testing the Mediation

The study employs the causal steps model developed by Baron and Kenny (1986). This model involves a series of conditions: (a) A statistically significant correlation between the outcome variable (Y) and the predictor variable (X). This examines the initial relationship between the predictor and the outcome. (b) The mediating variable (M) should exhibit a statistically significant correlation with the predictor variable (X). This checks the association between the predictor and the proposed mediator. (c) The mediating variable (M) must also show a statistically significant correlation with the outcome variable (Y). This investigates whether the mediator is linked to the outcome. (d) The magnitude of the influence of the independent variable (X), denoted as β , on the outcome variable (Y) should be less than the impact observed in step (a). This step confirms the presence of a mediating effect.

This approach is applied to examine both direct and mediating effects. Some scholars argue that meeting all these conditions is not always necessary for mediation to occur because causality can exist without a direct relationship (Hayes & Rockwood, 2017). Nevertheless, conditions (a) and (b) are often emphasized more (Kenny, Kashy & Bolger, 1998). This is worth noting that previous research (Luna-Jintawattanagul et al., 2016; Kouaib & Jarboui, 2017; Sotorro, 2018; Cuadrado-Ballesteros et al., 2017) has employed this methodology to investigate causal relationships and mediating effects. Some researchers believe that combining the causal steps approach with statistical tests like the Sobel test can provide a more comprehensive analysis of mediating variables and causal relationships.

3.8 Chapter Summary

In summary, this chapter discussed the methodology used to execute the study. It included the research design, sampling, data, and model specification. More so, the variables measurement and empirical estimation techniques were stated. The Baron and Kenny model (1986) was employed in testing the mediating effect for the study.



CHAPTER FOUR

RESULTS AND DISCUSSIONS OF FINDINGS



CHAPTER FOUR

RESULTS AND DISCUSSIONS OF FINDINGS

4.1 Introduction

We set out to explore the mediating effect of financial reporting quality on the relationship between AC characteristics and firm performance in Ghana, between the 2007–2019-year periods. In this chapter, descriptive statistics and correlation matrix form part of the underlying assumptions met before the discussion of the actual analysis. We then proceeded with an estimation of the regression model(s) and subsequent discussion of the results/findings. Finally, a discussion of the findings is presented.

4.2 Descriptive analysis

Table 4.1 in the study provides a summary of descriptive statistics for a sample of 37 listed firms in Ghana. The data reveals that, on average, the Tobin Q for these firms is 2.399, with a range spanning from 0.245 to 14.783. This statistic suggests that, on average, approximately 23% of the firms listed on the Ghana stock exchange employ discretionary accruals in their financial reporting. Additionally, it indicates that these listed firms primarily use their market value of equity in relation to their book value of total assets, differing from the findings in previous studies by Dakhllalh et al. (2020) of 15%, Al-Matari, Al-Swidi, and Fadzil (2012) of 20%, and Bansal and Sharma (2016) of 28%. These disparities can be attributed to various factors, with sample size being one of them.

The table also presents data showing that, on average, Audit Committees (AC) in these firms consist of 75% non-executive directors. This is in line with the recommendations of the Ghana Corporate Governance codes, which advocate for approximately two-thirds (around 67%) of

committee members being non-executive directors. Most Audit Committees have a range, with a minimum of 32% and a maximum of 78% non-executive directors. This demonstrates adherence to corporate governance guidelines, emphasizing the importance of having a substantial proportion of non-executive directors within the committee. Such a composition is believed to enhance the effectiveness of the Audit Committee in carrying out their oversight and monitoring responsibilities.

Table 4.1: Descriptive Statistics

Variable	Obs	Mean	Std.Dev.	Min	Max
FP (TOBINQ)	352	2.399	2.382	0.245	14.783
FRQ (DA)	352	0.238	0.532	-0.334	1.677
ACIND	352	0.750	0.223	0.319	0.780
ACSIZE	352	2.892	0.953	1.000	4.000
ACGDIV	352	0.149	0.151	0.000	1.000
ACIEXP	352	0.898	0.304	0.000	1.000
ACLEXP	352	0.83	0.377	0.000	1.000
ACFEXP	352	0.943	0.232	0.000	1.000
DEQUITY	352	1.315	1.176	0.252	4.888
FSIZE	352	3.957	1.326	1.014	6.079
FAGE	352	17.818	8.354	1.000	29.000

Relatedly on average, the AC size comprises three (3) members, the minimum size is 1, and the maximum size of four (4). This implies that the listed firms AC comply with the Ghanaian Corporate Governance guide, which stipulates that at least three (3) non-executive directors must be comprised of the audit committee. It is also seen from Table 4.1 that, on average, there were

94% of firms sample had at least one (1) audit committee financial expertise. This means that listed firms are complying with the recommendation of the SEC Code of Corporate Governance (2011) of having at least one member with management and financial accounting knowledge. While some firms did not have any financial accounting experts in their ACs, some had a maximum of one member possessing such expertise.

Table 4.1 also reports on average, there were 89% and 83% of the firms sample had audit committees with industry and legal expertise respectively. This is also in line with the Ghanaian Corporate Governance Codes (2020), which stipulates that an audit committee shall have at least one member who possesses adequate knowledge of the industry in which the company operates. In addition, at least a member with a broad knowledge of the law. The mean for both expertise showed a high percentage of 89% and 83%. This suggests that the listed firms do have varieties of expertise on the audit committee, however, this has not been empirically explored by literature. Furthermore, on average 14.9% of the firms' sample had audit committee members who were female directors. Where some firms had no female in their AC, some showed a maximum of at least one female on the committee. Previous studies such as Ittonen et al. (2010), reported a much higher average of about 50%. This denotes the involvement of more women in corporate governance and policy recommendations.

Regarding the control variables, DEQUITY displayed an average value of 1.315, with a minimum value of 0.252 and a maximum value of 4.888. The mean value exceeding one (1) indicates that, on average, the listed firms tend to rely more on debt financing in their capital structure compared to equity.

In terms of FSIZE, the mean was 3.957, with the minimum and maximum values being 1.019 and 6.017, respectively. This suggests that the listed firms have on average 3.957 of total assets within their possession. For AGE, the average value was 18 years, with a range from 1 to 29 years for the minimum and maximum respectively. This indicates that most of the firms have been in operation and listed for around 18 years, implying a significant level of familiarity with Corporate Governance Codes and practices.

4.3 Correlation Analysis

Gujarati and Porter (2003) and Kock and Lynn (2012) emphasize the need to ensure that variables within the regression model are free from collinearity. They explained that when multicollinearity is present in the dataset; the estimate of one regressor affects another and estimates are less precise than if the variables were not correlated. This study followed the advice from Gujarati and Porter (2003) and Kock and Lynn (2012) and tested for the presence of multicollinearity by estimating the pairwise correlation matrix as presented in Table 4.2. The results from this exercise show that multicollinearity is unlikely in the dataset. This is because the coefficients are within acceptable thresholds (Gujarati & Porter, 2009). Although there is moderate correlation between the AC characteristic variables, such as (0.258) between ACSIZE and ACIEXP, also (0.296) between ACIEXP and ACLEXP. Thus, they are not high enough to influence the individual impact of the predictors on the dependent variable. Similar correlation matrix results are consistent with other empirical works like Al Manaseer et al, (2012) and Al-Mantari (2104). Again, the high correlation coefficient of (0.471) between ACGDIV (predictor) and FRQ (dependent) shows a possible positive relationship between the two which justifies ACGDIV additions to the existing literature. Another highlight from the correlation matrix is the high correlation of (0.444) between the dependent variable TOBINQ which is a measure of firm performance and ACSIZE. This indicates

that firm performance and audit committee size are proportional related, the higher the AC size, the better the performance of the firm. However, these associations do not imply causality and a full regression model needs to be specified to establish the impact of ACSIZE on firm performance.



Table 4.2: Matrix of correlations

	FRQ	TOBINQ	ACIND	ACSIZE	ACGDIV	ACIEXP	ACLEXP	ACFEXP	DEQUITY	FSIZE	FAGE
FRQ	1.000										
TOBINQ	-0.064	1.000									
ACIND	0.111	-0.176	1.000								
ACSIZE	0.369	0.444	-0.347	1.000							
ACGDIV	0.471	-0.157	-0.109	0.126	1.000						
ACIEXP	0.075	0.140	-0.124	0.258	-0.002	1.000					
ACLEXP	-0.201	0.087	0.020	0.155	0.072	0.296	1.000				
ACFEXP	-0.032	0.047	-0.045	0.127	-0.088	-0.083	0.019	1.000			
DEQUITY	-0.063	-0.034	-0.317	0.107	0.269	0.068	0.037	0.071	1.000		
FSIZE	-0.003	0.216	-0.184	0.253	-0.035	0.263	0.132	0.148	0.130	1.000	
FAGE	-0.232	0.197	-0.231	0.407	0.134	0.123	0.066	0.089	0.448	0.436	1.000

Firm Performance= TobinQ, ACIND=AC Independence, ACSIZE=AC Size, AACGDIV=AC Gender Diversity, ACIEXP= AC Industry Expertise, ACLEXP= AC Legal Expertise, ACFEXP=AC Financial Expertise, DEQUITY= Debt to Equity, FSIZE= Firm Size. FAGE=Firm Age



4.4 Regression Results and Hypothesis Testing

In this section, we present and discuss the results from the empirical model estimations to address the objective of the study. The tables show the results from the System GMM, where we proxy firm performance as Tobin Q, financial reporting quality as discretionary accruals (DA), and AC characteristics into various sub-components (AC independence, size, financial expertise, industry expertise, legal expertise, and gender diversity). Below are the study's results and a discussion of each established relationship in the study.

4.4.1 AC Characteristics and Firm Performance

This section is dedicated to exploring the connection between audit committee (AC) characteristics and the performance of listed firms in Ghana. The section aims to assess hypotheses one (a) to (f), (H1a-H1f,) which correspond to the first condition of the mediation effect. To facilitate interpretation, the analysis includes key indicators such as the coefficient (β), standard error, and significance level.

Table 4.3: AC Characteristics and Firm Performance

Variable L.FP	Coefficient
	0.260*** (0.0147)
ACIND	4.200*** (0.875)
ACSIZE	0.521*** (0.0385)
ACFEXP	0.183*** (0.543)
ACIEXP	0.442*** (0.158)
ACLEXP	0.148*** (0.176)

ACGDIV	2.558** (1.159)
DEQUITY	0.253*** (0.0447)
FSIZE	-0.920*** 0.182)
FAGE	0.0334 (0.0322)
<hr/>	
AR(1) p-value	0.007
AR(2) p-value	0.197
Sargan p-value	0.254
Hansen p-value	0.356
Year dummies	Yes
Observations	352
Number of Groups	37

*Firm Performance= TobinQ, ACIND=AC Independence, ACSIZE=AC Size, AACGDIV=AC Gender Diversity, ACIEXP= AC Industry Expertise, ACLEXP= AC Legal Expertise, ACFEXP=AC Financial Expertise, DEQUITY= Debt to Equity, FSIZE= Firm Size. FAGE=Firm Age, *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$, * significant at 1%, 5%, 10% respectively*

Table 4.3 displays the results of a System GMM regression analysis investigating the relationship between audit committee characteristics and Tobin Q, a measure of firm performance. The analysis revealed a positive and significant association between audit committee independence (ACIND) and firm performance, as indicated by the significant regression coefficient ($\beta=4.200$) at the 1% significance level. This finding supports the idea that having a greater number of non-executive directors on the audit committee enables more thorough scrutiny of various corporate aspects, including the financial reporting process, internal audit function, and risk management, among others (Alqatamin, 2018). Non-executive directors, being uninvolved in day-to-day operations, are

less likely to be biased and are more transparent in fulfilling their roles, ultimately leading to improved firm performance.

Additionally, an audit committee with a high number of independent non-executive directors is better equipped to resist pressure from company managers, thereby providing more effective oversight, as suggested by Kallamu and Saat (2015). These results are consistent with the agency theory, which posits that independent directors contribute to effective management oversight. This finding aligns with previous research, such as that conducted by (Bagais & Aljaaidi, 2020; Naimah, 2017; Alqatamin, 2018). However, it contrasts with the study by Leung et al. (2014), which reported a negative relationship between audit committee independence and firm performance. One potential explanation for this discrepancy could be that independent directors in the audit committee may have connections or ties with CEOs and top management, which could weaken their independence and, subsequently, their monitoring capabilities (Leung et al., 2014). Overall, these results support the study's hypothesis (H1a).

Table 4.3 presents the System GMM regression results of the relationship between the AC characteristics and the Tobin Q. It was found that the audit committee independence (ACIND) had a positive and significant relationship with firm performance measured by Tobin Q. This was observed from the regression coefficient of ($\beta=4.200$) which was significant at 1%. This supports the fact that the greater the number of non-executive directors on the audit committee, the more they can scrutinize the various corporate components of the firm. These components include the financial reporting process, internal audit function, and risk management process amongst others.

This is because non-executive directors are not involved in the day-to-day activities of the firm. Thus, less inclined to be biased and more transparent in discharging their duties. This leads to good firm performance.

Moreover, due to its ability to resist pressure from managers, an audit committee made up of a high number of independent non-executive directors is more likely to provide greater oversight (Kallamu & Saat, 2015). Furthermore, the study confirms the agency theory, implying that independent directors provide effective management oversight. These findings are similar to previous studies such as (Bagais & Aljaaidi, 2020; Naimah, 2017; Alqatamin, 2018). However, the study by Leung et al. (2014) found a negative relationship between AC independence and firm performance. A possible reason for this could be that it is likely that the independent directors in the AC may have connections or ties with the CEOs and general management (Naimah, 2017). This may weaken their independence, and thus reduce their monitoring abilities. The study results support the hypothesis (H1a).

The study also examined the audit committee size (ACSIZE) as an AC characteristic, and the results from Table 4.3 indicate a positive relationship between ACSIZE and firm performance. This relationship is underscored by a significant regression coefficient of $\beta=0.521$ at the 1% significance level, suggesting that the size of the audit committee can contribute to improved firm performance. In line with the resource dependency theory, these findings suggest that a larger audit committee is deemed highly resourceful, which, in turn, enhances overall firm performance. This enhancement stems from the diverse skills, expertise, and experiences that members of a larger committee bring to the table. As such, the efficiency of the audit committee increases with its size,

given that a larger committee possesses a greater pool of expertise and capabilities among its members, as noted by Dakhlallah, Rashid, Abdullah, and Al Shehab (2020).

These results agree with the findings of Reddy et al. (2010), who also identified a positive and significant relationship between audit committee size and firm performance. However, they contrast with the results of Al-Matari et al. (2012) and Karamanou and Vafeas (2005), who found a negative relationship between audit committee size and firm performance. One possible explanation for this inconsistency could be that an overly large audit committee may experience process losses and a diffusion of responsibilities. Therefore, the findings of this study lend support to the hypothesis (H1b).

Another AC attribute employed in this study was audit committee financial expertise (ACFEXP). Table 4.3 shows that the ACFEXP has an association with firm performance. It records ($\beta=0.183$) coefficients denoting that on average a proportionate increase in financial expertise on the AC will cause firm performance to increase by 18.3%. These AC members because they are abreast with accounting standards, policies, and procedures that may affect the firm. This result is compatible with the resource dependency, which suggests that having more members with recent and appropriate financial experience on audit committees helps in their monitoring and oversight role, which helps Ghanaian companies perform better. Meanwhile, the study disagrees with the findings of Cohen et al. (2014) who recommended more technical expertise as compared to financial expertise. Asserting that, the existence of external auditors would compensate for the ineffectiveness of AC's financial expertise in overseeing the financial statements. This finding is not different from Kallamu and Saat (2015). Thus, hypothesis (H1c) is supported by the study result.

Furthermore, audit committee industry experts (ACIEXP) were the next AC characteristic used in this study. It was observed from Table 4.3 that the ACIEXP had a positive significant relationship with the Tobin Q with a coefficient of ($\beta=0.442$). This implies that members of the AC with industrial knowledge are more likely to contribute to the overall firm performance in Ghana. This supports the findings of Cohen et al. (2014) that industry expertise can contribute immensely toward the AC because they understand firms' operations and conditions. These experts can better understand and evaluate industry-specific estimates, like warranty obligations. This confirms the evidence that the presence of AC members with industry expertise in the AC provides a crucial role in enhancing monitoring and oversight functions and thus, improves the firm performance.

Subsequently, the audit committee legal expertise (ACLEXP) indicated a positive significant relationship with firm performance measured by Tobin Q with a regression coefficient of ($\beta=0.148$) at a 5% significance level. The possible justification could be because of their sensitivity to litigation risk, ACs with a legal expert would be particularly focused on liabilities originating from misstatements, thus enabling good performance activities (Krishnan et al., 2011). More so, this legal expertise helps deal with specific legal issues affecting the firm. Relatedly, the risk management process is one key corporate component overseen by the AC. These experts help bring unsystematic risk and regulatory risk to a minimum (Erasmus et al., 2012). Consistent with resource dependency theory, an increase in members who have legal expertise, would improve the overall firm performance.

In Table 4.3, it's evident that the gender diversity within the audit committee (ACGDIV) displayed a significant and positive correlation with Tobin Q, which serves as a proxy for firm performance.

The regression coefficient for this relationship was $\beta=2.588$. Drawing upon the social feminist

theory, one possible explanation for this outcome could be that female directors within the audit committee are equally competent as their male counterparts. When given equal opportunities and responsibilities comparable to their male colleagues, they are likely to contribute to error reduction in various processes, including internal audit, financial reporting, and risk management, as indicated by Alqatamin et al. (2017) and Hameed & Counsell (2012). This result aligns with the findings of Luckerath-Rovers (2013), Miller, and del Carmen Triana (2009), who all discovered a significant and positive relationship between gender diversity and firm performance. They argue that audit committees with a higher representation of female members tend to outperform those with no female members. However, it contradicts the results obtained by Carter et al. (2010) and Rose (2007), who found no significant relationship between the proportion of female board members and company performance in the context of U.S. and Danish firms, respectively.

Considering the control variables, the debt-to-equity ratio (DEQUITY) showed a positive significant relationship with firm performance measured as Tobin Q. Table 4.3 showed a regression coefficient of ($\beta=0.253$). Additionally, the firm size showed a negative and significant relationship with performance ($\beta=-0.920$). This is probably because larger firms, according to Kinney and McDaniel (1989), have better internal controls, better information systems, and more resources, and therefore the possibility for enhanced quality reporting, which leads to improved firm performance. The firm age (FAGE) provided a positive and insignificant relationship with the performance of a firm. This means that despite the age of a firm, firm performance can be achieved, if they have efficient systems and controls over various firm processes.

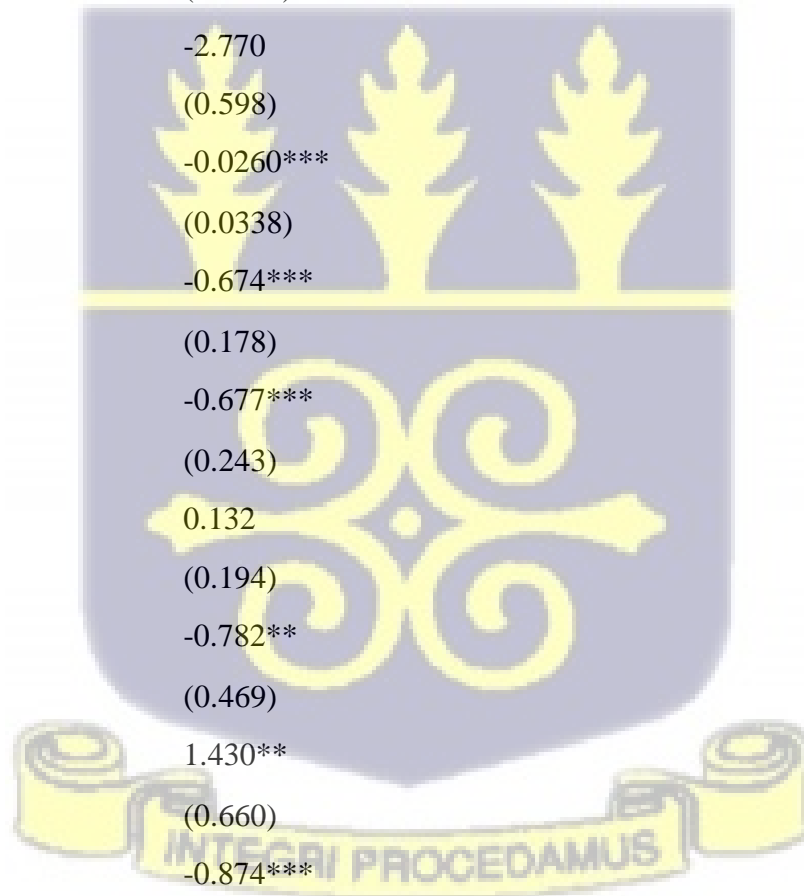
4.4.2 AC Characteristics and Financial Reporting Quality

This section investigates the links between the characteristics of audit committees (AC) and the quality of financial reporting in Ghana's publicly listed companies. The research utilized a System

GMM approach to assess hypotheses (H2a-H2f), aiming to evaluate the second condition of mediation. In the process of hypothesis testing, discretionary accruals (DA) were employed as a measure to approximate the quality of financial reporting. To facilitate comprehension, the study generated and presented results in the form of indicators, including the coefficient (β), robust standard errors, and the levels of statistical significance.

Table 4.4: AC Characteristics and Financial Reporting Quality

Variable	Coefficient
L.FRQ	-0.098* (0.0550)
ACIND	-2.770 (0.598)
ACSIZE	-0.0260*** (0.0338)
ACFEXP	-0.674*** (0.178)
ACIEXP	-0.677*** (0.243)
ACLEXP	0.132 (0.194)
ACGDIV	-0.782** (0.469)
DEQUITY	1.430** (0.660)
FSIZE	-0.874*** (0.181)



FAGE	0.127*** (0.0280)
AR(1) p-value	0.015
AR(2) p-value	0.356
Sargan p-value	0.852
Hansen p-value	0.428
Year dummies	Yes
Observations	352
Number of Groups	37

*Firm Performance= Tobin Q, FRQ= Discretionary Accruals, ACIND=AC Independence, ACSIZE=AC Size, ACGDIV=AC Gender Diversity, ACIEXP= AC Industry Expertise, ACLEXP= AC Legal Expertise, ACFEXP=AC Financial Expertise, DEQUITY= Debt to Equity, FSIZE= Firm Size. FAGE=Firm Age, *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$, * significant at 1%, 5%, 10% respectively*

In Table 4.4, the study presents the results of a system GMM regression analysis examining the association between AC (Audit Committee) characteristics and discretionary accruals (DA). The analysis revealed that audit committee independence (ACIND) exhibited a negative and statistically insignificant relationship with discretionary accruals (DA), as indicated by the regression coefficient ($\beta = -2.770$). This outcome, although unexpected, can be explained by findings in the existing literature. As discussed by Mohammed (2018), independent directors within the audit committee might have affiliations or connections with the CEOs and top management. These connections could lead them to be more sympathetic to the challenges faced by the management. Consequently, their independence may be compromised, and their effectiveness in monitoring the financial reporting process could be reduced. This finding is

consistent with the results reported in the study conducted by Sanda, Garba, and Mikailu (2011). As a result, this outcome does not support the study's hypothesis (H2a).

Following audit committee independence, the next characteristic examined in the study was audit committee size (ACSIZE). As depicted in Table 4.4, the analysis reveals that ACSIZE is negatively and significantly associated with discretionary accruals (DA) ($\beta=-0.0260$) at a 1% significance level. The presence of a larger audit committee size proves to be highly beneficial in enhancing financial reporting quality. This aligns with the principles of resource dependency theory, as a larger committee often brings a diverse range of expertise, knowledge, and skills to the table. Consequently, they can effectively distribute the workload, which helps in reducing managerial discretions (Miko, 2016; Setiany et al., 2017). Similar findings have been reported in previous studies (Abata & Migiro, 2016; Fodio et al., 2013). Therefore, these findings support hypothesis (H2b).

In the study, the Audit Committee financial expertise (ACFEXP) was the next characteristic under examination. As indicated in Table 4.4, ACFEXP exhibits a negative and statistically significant relationship with DA, as evidenced by a regression coefficient of ($\beta=-0.674$) at a 1% significance level. This suggests that members of the Audit Committee possessing financial accounting knowledge are more likely to act as a deterrent against or mitigate earnings manipulation in the context of Ghana. This underscores the critical role that AC members with financial accounting expertise play in enhancing monitoring and oversight functions, which, in turn, contributes to the overall quality of financial reporting. Financial experts have a deep understanding of financial statement elements due to their comprehensive knowledge of accounting standards, policies, and principles. Consequently, they are better equipped to identify manipulation or vulnerabilities.

These findings are consistent with previous studies conducted by Lisic et al. (2017), Juhmani (2017), Badolato et al. (2014), and Fuller (2015), which all reported that AC accounting experts have a significant negative impact on DA.

Subsequently, as seen in Table 4.4, the study revealed that Audit Committee industry expertise (ACIEXP) is negatively and significantly associated with DA, as indicated by a regression coefficient of ($\beta=-0.677$) at a 1% significance level. This suggests that AC members with industry-specific knowledge are more likely to act as a deterrent against earnings manipulation within the Ghanaian context. This underscores the importance of having AC members with industry expertise in enhancing monitoring functions, consequently leading to improved financial reporting quality (FRQ). These industry experts are proficient in accurately estimating industry-related factors that impact financial statements, which, in turn, reduces the management's ability to engage in manipulation concerning these estimates. These findings align with Krishnan et al. (2011) and support the hypothesis (H2d) of the study.

Following in the same vein, audit committee legal expertise (ACLEXP) was the next AC. In contrast to the research hypothesis, it was observed that the presence of legal experts on the AC showed a positive but insignificant relationship with DA. This implies that having a legal expert on the Audit Committee does not appear to deter managers from engaging in earnings management in the form of discretionary accruals (DA). According to Krishnan et al. (2011), this might be explained by the fact that legal directors typically lack specific training related to financial reporting, unlike financial experts. As evident from the profiles of these directors, the majority of AC legal experts/directors do not possess expertise or experience in accounting, finance, or auditing. Consequently, their lack of experience in these areas may render them ineffective in

preventing financial accounting manipulation, particularly in the form of DA. Furthermore, Cohen et al. (2014) suggest that their primary role is to identify liabilities arising from financial misstatements due to their heightened focus on risks.

Table 4.4 also demonstrates that ACGDIV exhibits a negative correlation with DA, as evidenced by a regression coefficient of ($\beta=-0.782$) at a 5% significance level. This suggests that having at least one female director on the audit committee may decrease the likelihood of managerial misconduct related to earnings, thereby contributing to improved financial reporting quality (FRQ). A possible explanation for this could be that women are not inferior compared to their male counterparts. A possible justification could be that autonomous decision-makers who are less tolerant of unethical behavior and risk-averse are often affiliated with women (Adams & Ferreira, 2009, Srinidhi et al., 2011). More also, this enables them to mitigate discretions by managers, thus improving financial reporting quality.

Considering the control variables, Table 4.4 reveals that there is a significant negative correlation between firm size (FSIZE) and DA at a 1% significance level. This implies that larger companies are less likely to engage in earnings management compared to smaller ones. This could be attributed to the fact that larger firms typically have more rigorous accounting practices and procedures in place. Consequently, they may have developed a well-established system over time, which reduces the chances of financial manipulation by management. Notably, previous studies, such as those conducted by Nelson and Devi (2013) and Chen et al. (2010), have reported a positive relationship between firm size and DA.

On the other hand, debt-to-equity (DEQUITY) exhibits a positive and statistically significant association with DA, with a regression coefficient of 1.430 at a 5% significance level. Although

the relationship is positive, it's noteworthy that DEQUITY plays a significant role in mitigating earnings management.

Firm age (FAGE) also demonstrates a positive and significant relationship with discretionary accruals, indicated by a coefficient of ($\beta=0.127$). This suggests that firm age is influential in curbing earnings manipulation. One plausible explanation could be that all things being equal, older firms tend to have more effective and efficient financial systems in place, which helps in reducing the likelihood of financial statement manipulation.

4.4.3 Financial Reporting Quality and Firm Performance

In this section, we also assess hypothesis H3, focusing on investigating the third condition the mediation effect. To test these hypotheses, we employed DA as the measure for assessing FRQ. To aid in the interpretation of the results, we computed and provided indicators like the coefficient (β) and robust standard error.

Table 4.5: Financial Reporting Quality (DA) and Firm Performance

VARIABLES	(Model C) FP
L.FP	0.271*** (0.0357)
FRQ (DA)	-0.238** (0.0929)
DEQUITY	0.421*** (0.0799)
FSIZE	-0.171 (0.161)
FAGE	-0.145***

	(0.0136)
AR(1) p-value	0.018
AR(2) p-value	0.163
Sargan p-value	0.361
Hansen p-value	0.653
Year dummies	yes
Observations	352
Number of Groups	37

*Firm Performance= TobinQ, FRQ= Discretionary Accruals, DEQUITY= Debt to Equity, FSIZE= Firm Size. FAGE=Firm Age, *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$, * significant at 1%, 5%, 10% respectively*

Table 4.5 presents the result of the relationship between the financial reporting quality measured by discretionary accruals (DA) and firm performance measured by Tobin Q. Table 4.5 shows that the financial reporting quality (DA) had a negative and significant relationship with the firm performance. This was revealed by a coefficient of ($\beta = -0.238$) at a 5% significant level. Using the underlying fact that the inverse of discretionary accruals is FRQ. This indicates that the lower the discretion managers have on the financial statements leads to an enhanced firm performance of listed firms in Ghana. The findings suggest that firms with enhanced reporting systems enjoy a high level of performance, and good financial reporting is associated with higher earnings (Ahmed & Duellmand, 2011). This is a result that the participant confidently assesses those companies that are more committed to the issuance of good information for shareholders and other stakeholders. This aims at reducing or avoiding information asymmetries between market participants (Garcia-Lara et al., 2010). Furthermore, we may generalize that organizations that provide higher-quality financial reporting are perceived and valued more favorably by society and investors, allowing them to improve their performance. This finding is also consistent with (Sohail & Aziz, 2019).

These empirical findings follow the expected hypothesis (H3) that financial reporting quality has a positive and significant impact on firm performance.

4.5 Mediating Effect of FRQ on the AC Characteristics and Firm Performance

The conceptual framework hypothesized the mediating effect of financial reporting quality between AC characteristics and firm performance. Zhao et al. (2010) assert that in understanding the mediating effect, it is important to understand the direct effect and indirect effects of the relationships involved. The mediated model in Table 4.6 shows the indirect effect of AC characteristics and firm performance through financial reporting quality.



Table 4.6: AC Characteristics, Financial Reporting Quality, and Firm Performance

VARIABLES	(Direct Model A)	(Model B)	(Model C)	(Mediated Model D)
	FP (Tobin Q)	FRQ (DA)	FP	FP
L.FP	0.260*** (0.0147)		0.271*** (0.0357)	0.334*** (0.0421)
L.FRQ		-0.0948* (0.0550)		
FRQ (DA)			-0.238** (0.0929)	-1.260*** (0.172)
ACIND	4.200*** (0.875)	-2.770 (0.598)		0.9996 (1.161)
ACSIZE	0.521*** (0.0385)	-0.0260*** (0.0338)		0.00686*** (0.180)
ACFEXP	0.183*** (0.543)	-0.674*** (0.178)		0.168*** (0.781)
ACIEXP	0.442*** (0.158)	-0.677*** (0.243)		0.393*** (0.298)
ACLEXP	0.148*** (0.176)	0.132 (0.194)		0.0315 (0.228)
ACGDIV	2.558** (1.159)	-0.782** (0.469)		0.1861*** (2.273)
DEQUITY	0.253*** (0.0447)	1.433** (0.660)	0.421*** (0.0799)	0.429*** (0.0911)
FSIZE	-0.920***	-0.874***	-0.171	-0.275

	(0.182)	(0.181)	(0.161)	(0.217)
FAGE	0.0334	0.127***	-0.145***	-0.116***
	(0.0322)	(0.0280)	(0.0136)	(0.0371)
AR(1) p-value	0.007	0.015	0.018	0.007
AR(2) p-value	0.197	0.356	0.163	0.182
Sargan p-value	0.254	0.852	0.361	0.287
Hansen p-value	0.356	0.428	0.653	0.428
Year dummies	yes	yes	Yes	Yes
Observations	352	352	352	352
Number of Groups	37	37	37	37

*Firm Performance= TobinQ, FRQ=Discretionary Accruals, ACIND=AC Independence, ACSIZE=AC Size, ACGDIV=AC Gender Diversity, ACIEXP= AC Industry Expertise, ACLEXP= AC Legal Expertise, ACFEXP=AC Financial Expertise, DEQUITY= Debt to Equity, FSIZE= Firm Size. FAGE=Firm Age, *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$, * significant at 1%, 5%, 10% respectively*

Table 4.7 Indirect Effect and Total effect for all Hypothesized Path

Hypothesis	Path	Indirect effect (ab)	Results	Total Effect (ab+c')
H4a	ACIND->FRQ-> Firm Performance	0.996	N/A	-
H4b	ACSIZE->FRQ-> Firm Performance	0.00686***	Accepted	0.5279
H4c	ACFEXP->FRQ-> Firm Performance	0.168***	Accepted	0.351
H4d	ACIEXP->FRQ-> Firm Performance	0.393***	Accepted	0.835
H4e	ACLEXP->FRQ-> Firm Performance	0.0315	N/A	-
H4f	ACGDIV->FRQ-> Firm Performance	0.1861***	Accepted	2.7441

*Significance level: ***1%; **5%; *10%. The Table shows the path coefficients of the various relationships. [N/A=Not Accepted]*

4.5.1 *Audit Committee Independence*

According to Table 4.6, the direct effect of the relationship between ACIND and firm performance was found to be a positive and significant relationship at 1% ($\beta=4.200$). The specific indirect effect was found not to be statistically significant ($\beta=0.9996$). The result suggests that financial reporting quality does not mediate the relationship between ACIND and firm performance. This is not surprising as it was indicated earlier that, the direct effect relationship between ACIND and FRQ was found not to be statistically insignificant ($\beta=-2.770$). As documented by Mohammed (2018) independent directors in the AC may have connections or ties with the CEOs and general management. This may weaken their abilities to mitigate earnings management. This may serve as a cause for the inability of FRQ to mediate the relationship between ACIND and firm performance.

4.5.2 *Audit Committee Size*

The specific indirect relationship between ACSIZE and firm performance was to be statistically significant ($\beta=0.00686$), significant at 1%. This indicates financial reporting quality mediates the relationship between ACSIZE and firm performance. This constitutes about 1.3% of the mediating effect of FRQ on the relationship between ACSIZE and firm performance. According to Baron and Kenny (1986), all the causal steps were met. The relationship between ACSIZE and firm performance was positive and significant ($\beta= 0.521$). Also, the ACSIZE and FRQ (using DA) were in line as they had a negative significant relationship with the DA ($\beta=-0.0260$). The third step of the causal step was met, where FRQ and firm performance coefficient have a positive and significant relationship ($\beta= -0.238$). In addition, the results also show that the inclusion of the mediator in the model causes the coefficient for ACSIZE to decrease to ($\beta= 0.00686$), which

indicates the relationship between ACSIZE and firm performance is partially mediated by financial reporting quality.

The findings indicate that a larger Audit Committee (AC) is considered to be a valuable resource, leading to enhanced overall firm performance. This is attributed to the diverse skills, expertise, and experiences that its members bring to the table. Consequently, the efficiency of the AC increases as its size expands, as a larger committee possesses a greater pool of expertise and abilities among its members (Dakhlallah, Rashid, Abdullah, & Al Shehab, 2020). These results align with the arguments put forth by proponents of agency theory. They suggest that an increase in the number of AC members correlates with a more significant improvement in financial reporting quality. This, in turn, implies an enhanced firm performance, as larger ACs are better equipped to safeguard the integrity of the accounting processes and minimize manipulative practices (Kim et al., 2016; Yasser & Al Mamu, 2016).

4.5.3 *Audit Committee Financial Expertise*

The study examines the role of FRQ as a mediator in the connection between ACFEXP and firm performance. As shown in Table 4.6, the analysis reveals a statistically significant positive indirect effect ($\beta=0.168$) at the 1% significance level. This indicates that FRQ acts as a mediator in the relationship between ACFEXP and firm performance. Furthermore, Table 4.7 demonstrates that the mediating effect accounts for approximately 47.9% of the total effect. In accordance with the mediation steps outlined by Baron and Kenny, the direct relationship between ACFEXP and firm performance, as measured by Tobin Q, is positively significant ($\beta=0.183$) at the 1% significance level. Additionally, when the mediator is introduced into the model, the coefficient for ACFEXP decreases to ($\beta=0.168$). This reduction suggests that the relationship between ACFEXP and firm performance is partially mediated by financial reporting quality.

The implication of these results means that a larger proportion of the ACFEXP reduces discretions managers have over the financial statement, thus ensuring quality that brings about enhanced or improved firm performance. Thus, their requisite knowledge of accounting standards, policies, procedures, and choices enables them to be great watchdogs over the financial reporting process (Madawaki, 2013). This results in higher performance. Consequently, Garcia-Lara et al. (2010) asserts organizations with superior financial information have higher firm performance. This is because the market accesses positively to organizations that are more devoted to providing accurate information to shareholders and other stakeholders, to reduce or eliminate knowledge gaps between market players (Ahmed & Duellmand, 2011; Bushman & Smith, 2001). Hence, the findings support the hypothesis of the study, which recognized that the FRQ mediates the relationship between AC financial expertise and firm performance.

4.5.4 *Audit Committee Industry Expertise*

The mediated model in Table 4.6 showed a positive and significant relationship between ACIEXP and firm performance. The indirect effect revealed a coefficient of ($\beta = 0.393$) significant at 1%. This denotes that FRQ mediates the relationship between ACIEXP and firm performance, of which it accounted for 47% of the total effect. The direct effect was also found to be positive and significant ($\beta = 0.422$) at a 1% significance level. Additionally, the results showed that the inclusion of the FRQ in the model causes the coefficient for ACIEXP to decrease to ($\beta = 0.168$), which indicates the relationship between ACIEXP and firm performance is partially mediated by the financial reporting quality of the listed companies in Ghana.

The significance of this finding is that an increase in the AC member who has industry expertise would bring about improved firm performance, through an increase in financial reporting quality. This is because industry expertise is likely to help the AC understand and evaluate industry-specific estimates affecting financial statements. Moreover, Jonas and Blanchet, (2000) asserted financial reporting quality is not only the final output (financial statement) but the quality of the process that includes the disclosure of the company's transactions, information on selection, application of accounting policies, and knowledge of judgment made.

This makes the AC industry expertise more necessary as they better analyze the relevant industry information, because of their knowledge of the firm's operation and financial conditions (Wang et al., 2015).

4.5.5 Audit Committee Legal Expertise

In this section, the direct relationship between ACLEXP and firm performance (using Tobin Q), showed a positive and significant relationship ($\beta= 0.148$). However, the specific indirect was found to be insignificant ($\beta=0.0315$). This denotes that there is no mediating effect of FRQ in the relationship between AC legal expertise and firm performance. As seen in Table 4.6, it was revealed that the relationship between ACLEXP and financial reporting quality (FRQ) showed an insignificant relationship of ($\beta= 0.132$). This only means no mediation analysis can be conducted in this case. Based on the directors' profile, most AC legal experts do not have a financial background, which may make them ineffective in the monitoring role of the financial reporting process (Krishnan et al., 2011). These experts are seen basically as monitors pointing out litigation risks because of financial misstatements. (Krishnan et al., 2011).

4.5.6 Audit Committee Gender Diversity

A significant positive relationship was ascertained between AC gender diversity (ACGDIV) and firm performance ($\beta = 2.558$). It is also observed from Table 4.6, that the specific indirect effect of ACGDIV and firm performance showed a coefficient of ($\beta = 0.998$) and significance at 5%. This means that FRQ mediates the relationship between ACGDIV and firm performance. From the total effect of 2.744 shown in Table 4.7, the indirect effects account for 36.3% of the total effects. Following the mediation analysis, all causal steps were met. The introduction of the FRQ in the mediated model causes the coefficient for ACGDIV to decrease to ($\beta = 0.998$), which indicates the relationship between ACGDIV and firm performance is partially mediated by the financial reporting quality of the listed companies in Ghana.

This shows that an increase in female directors on the AC would help mitigate the discretion managers have over the financial statements. In addition, women are regarded as effective watchdogs due to their ability to withstand pressure and less tolerance for manipulations. This in turn would affect how they oversee the financial reporting process. This study deviates from the result of Fischer et al. (1993) who asserted that women are deprived compared to men (Martnez et al., 2016). Thus, this deprivation makes them less resourceful in ensuring the quality of financial reporting. Therefore, the result suggests that female directors on the AC may be effective in ensuring financial reporting quality. This would in turn affect firm performance.

4.6 Chapter Summary

The study has presented descriptive statistics, correlation matrix, and regression results in this chapter to help explain the relationship among AC characteristics, firm performance, and financial reporting quality between 2007-2019 periods. Analysis of results of all the relationships stated as

well. The results presented in this chapter provides basis for recommendation to all relevant stakeholders.



CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS



CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

5.1 Introduction

This chapter summarizes and concludes the key findings of the study. It also outlines the study's limitations, which serve as potential research directions. In this regard, the chapter is organized as follows. A summary of the findings is provided first. Subsequently, discussion of implications and conclusion was drawn from the study's findings.

5.2 Summary of Findings

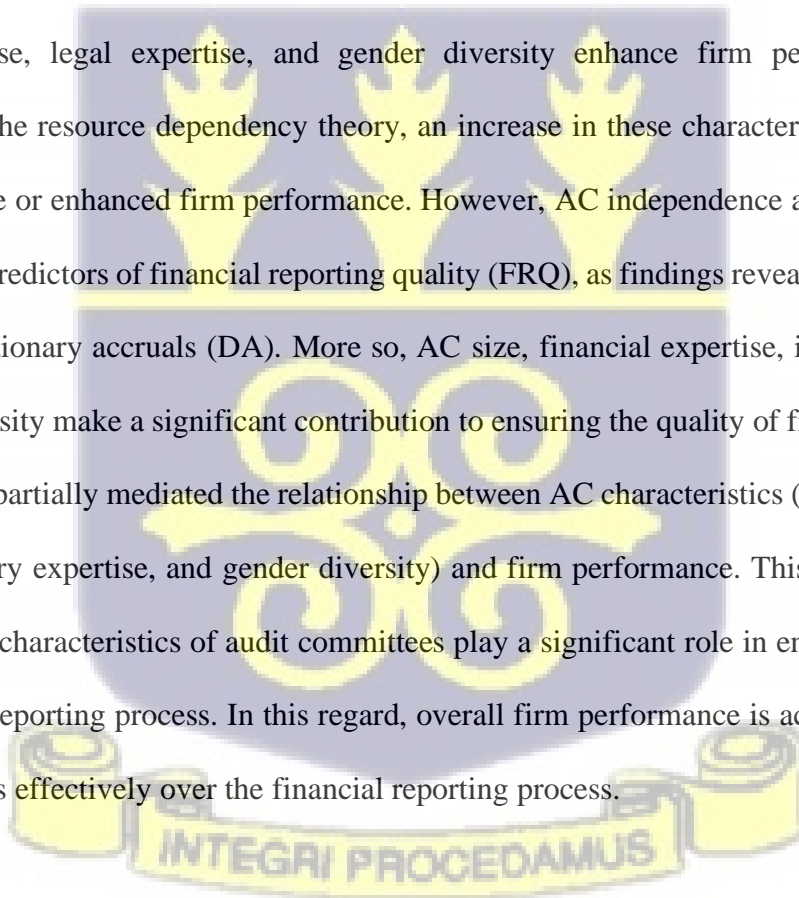
This study aimed to examine the AC characteristic on firm performance, and the mediating effect of FRQ, using empirical evidence from listed firms in Ghana. To achieve the general objective, the study adopted the positivist research paradigm and quantitative research approach. The study population comprised firms listed on the stock exchange in Ghana. All thirty-seven (37) of the listed firms were sampled. Data on the study variables were collected from secondary data sources-annual reports, spanning from the periods 2007 – 2019. Though expected firm-yearly observations were 481, some firms did not have financial statements for some periods, and some recently got listed on the stock exchange. This provided for unbalanced data of 352 firm-yearly observations and was estimated using the System Generalized Method of Moments (System GMM). Below is the summary of the research findings. All six audit committee characteristics were found to be positive and significant with firm performance. These include ACIND, ACSIZE, ACFEXP, ACIEXP, ACLEXP, and ACGDIV. The study found a negative and significant association between ACSIZE, ACFEXP, ACIEXP, and ACGDIV Discretionary accruals (DA). Which inversely means they all had a positive and significant relationship with FRQ. However, there was

no statistical evidence to support the insignificant relationship between ACIND, ACLEXP, and firm performance (FP).

More so, the study found that DA had a negative and significant relationship with firm performance. This means there is a positive and significant relationship between FRQ and FP. From the findings, the FRQ partially and significantly mediated the relationship that includes the ACSIZE, ACFEXP, ACIEXP, and ACGDIV and firm performance. However, two variables (ACIND and ACLEXP) were not supported by the mediating effect of FRQ.

5.3 Conclusion

Built on the empirical results, this study concluded that AC size, independence, financial expertise, industry expertise, legal expertise, and gender diversity enhance firm performance. Thus, consistent with the resource dependency theory, an increase in these characteristics would bring about an increase or enhanced firm performance. However, AC independence and legal expertise are not reliable predictors of financial reporting quality (FRQ), as findings revealed insignificantly related to discretionary accruals (DA). More so, AC size, financial expertise, industry expertise, and gender diversity make a significant contribution to ensuring the quality of financial reporting. Relatedly, FRQ partially mediated the relationship between AC characteristics (AC size, financial expertise, industry expertise, and gender diversity) and firm performance. This can be generally inferred that the characteristics of audit committees play a significant role in ensuring the quality of the financial reporting process. In this regard, overall firm performance is achieved, when AC continuously acts effectively over the financial reporting process.



5.4 Implications and Recommendations

The study's findings have some consequences on practices. Firstly, the findings imply that a greater proportion of AC size improves both financial reporting quality and firm performance. The study recommended that, there is a need to increase the size of ACs of firms listed in Ghana, to about 6-8 members, this is supported from result of Shankaraiah and Amiri (2017). This is slightly above the current maximum number of (4), as shown in the descriptive statistics. This can be done through the appointment of new board members to help guarantee the quality of financial reporting and promote enhanced firm performance. This is a result that large AC size may be better positioned, in terms of greater skills, experiences, and expertise to scrutinize the various components or processes of the firm such as internal audit function, audit quality process, and particularly financial reporting process to ensure improved performance of a firm (Shankaraiah & Amiri, 2017).

Secondly, the findings of the study showed that AC independence had a negative but insignificant relationship with DA (a proxy for FRQ). This implies that there may be some form of connectedness with the CEO, which impairs their independence in their oversight and monitoring role (Abdullah, 2006). This stipulates that, AC independence improves firm performance, not through the financial reporting process. Therefore, the study suggests that AC members should be materially free from any engagement or relationship with executive directors to protect their independence (Leung, Richardson & Jaggi, 2014). This would enable the AC to objectively scrutinize the financial reporting process, to ensure quality, which in turn would affect firm performance (Oussii & Taktak, 2018). More so, more independent members of the AC would greatly improve the overall firm performance.

Additionally, from the various expertise of AC investigated; financial, industry, and legal expertise are important expertise for ensuring improved firm performance and financial reporting quality. However, the finding showed a positive and insignificant relationship between AC legal expertise and DA (a proxy for FRQ). AC legal expertise could contribute to reducing earnings management, provided they are abreast with important financial education. Consequently, the researcher urges board directors of listed firms to appoint more auditing, finance, accounting expertise, and industry expertise, as it is likely to improve both financial reporting quality and firm performance.

Furthermore, the more diverse the ACs are, the more they are effective in their overall monitoring role. The potential difference in opinions, style, skills, and approach could help reduce discretion over financial statements, which would, in turn, affect firm performance. Therefore, diversity in the form of gender should be greatly encouraged and reinforced, due to the many benefits it poses to corporate processes/components of a firm.

5.5 Contribution of the Research

This study has empirically investigated the impact of AC characteristics on firm performance, through mediating effect of the FRQ of listed firms in Ghana. The study offers three contributions. First, this study contributes to the existing and ongoing debates on the various relationships, (1) AC characteristics and firm performance, (2) AC characteristics and financial reporting quality, (3) financial reporting quality and firm performance. Several researchers (e.g., Bagais & Aljaaidi, 2020; Aldamen et al., 2012; Zraiq & Fadzil, 2018; Al-Matari, 2014) have examined these relationships. However, mixed results have been revealed in their research findings. Consequently, some researchers call for more empirical research to help in the understanding of these relationships, especially in the other characteristics the audit committee could possess (Bagais & Aljaaidi, 2020; Al-Matari, 2014). The above-named researchers used primarily four AC

characteristics such as AC independence, size, financial expertise, and meeting frequency. Hence, this study contributed to the existing studies by introducing the new dimension of characteristics (e.g. industry expertise, legal expertise, and gender diversity) AC can possess to make them effective in their monitoring and oversight duties.

Additionally, our study contributes to the existing body of literature by introducing a novel dimension - the mediating role of financial reporting quality (FRQ) in the relationship between audit committee (AC) characteristics and firm performance. While prior studies like Bagais & Aljaaidi (2020) and Aldamen et al. (2012) have primarily focused on the direct relationships between AC characteristics and both firm performance and FRQ, our research bridges a notable gap in the literature.

Our findings offer valuable insights into how FRQ serves as a partial and significant mediator between specific AC characteristics (ACSIZE, ACFEXP, ACIEXP, and ACGDIV) and the performance of listed firms in Ghana. This study enhances our comprehension of how the impact of FRQ can amplify the effectiveness of AC oversight responsibilities, ultimately resulting in improved firm performance.

Lastly, existing studies examining the characteristics of audit committee, financial reporting quality, and firm performance were conducted in advanced and foreign economies' contexts, while such research is in rising in developing countries, such as Ghana is scarce. Also, from Alzeban and Gwilliam's (2014) observations, developing countries' ACs are recent and function within certain frameworks, different from developed countries with a history of formalized governance. Using the Ghanaian context, this study would contribute to existing studies. Though admittedly, related studies in line with the topic in Ghana have focused on assessing corporate governance practices

such as the appointment of corporate board members (e.g., Aboagye-Otchere, Bedi, & Kwakye, 2012; Simpson, 2014). However, based on the reviewed literature, none of the research has investigated FRQ as a mediator in the relationship between AC characteristics and firm performance in Ghana. The study makes an addition to the literature based on context, thus focusing on the Ghanaian context.

5.6 Limitation of the Study

The study's finding may be limited because of the following factors: First, the study sought to investigate the mediating effect of FRQ on the relationship between AC characteristics and firm performance, using empirical evidence firms listed in Ghana. As a result, its findings may not apply to publicly listed firms in other countries and contexts. Secondly, due to dissimilarities in regulatory restrictions, the findings may be limited to only listed firms in Ghana, and hence cannot be generalized to non-listed companies.

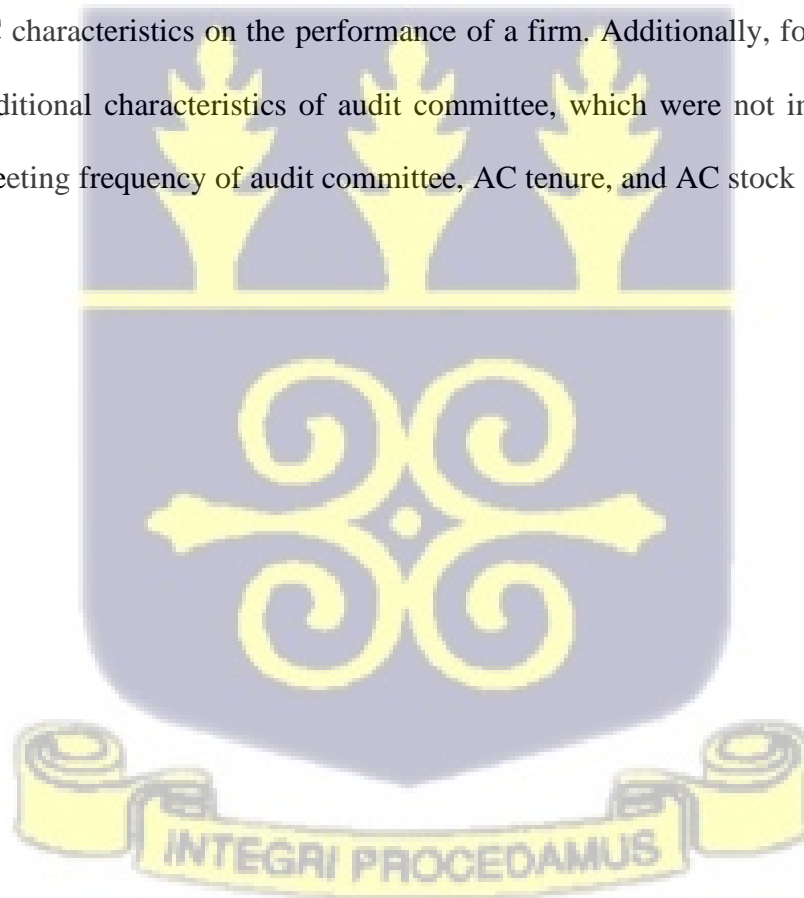
Moreover, not all AC characteristics were explored such as AC meeting frequency, AC tenure, and AC stock ownership amongst other, for which also affect both firm performance and financial reporting quality. This also limits the findings of the study. Additionally, the study employed solely a quantitative approach, which does not generally create opportunities for the generation of deep insights into the topic. More so, some listed firms engage in financial statement manipulation, though generally expected to be transparent in the presentation of financial reports. Thus, data extracted from annual reports possibly limits the findings.

More so, other mediating variables such as internal control, audit quality, and risk management, amongst others were not explored in the relationship between AC characteristics and firm performance. The study employed discretionary accruals (DA) as a proxy for financial reporting

quality (FRQ), other proxies such as earnings quality, and income smoothing (IS) could serve a similar purpose. Therefore, may be limited in this regard.

5.7 Recommendations for Future Research

Based on the study's limitations, the researcher suggested that additional African countries should be used in future studies to evaluate the impact of AC characteristics on firm performance., enhancing stakeholders' understanding of the topic. In addition, future research may conduct a comparative examination of the impact of AC characteristics on financial performance in both listed and non-listed companies. More so, other corporate components such as internal control quality, audit quality, and risk management quality may serve as mediating variables in assessing the effect of AC characteristics on the performance of a firm. Additionally, forthcoming studies may employ additional characteristics of audit committee, which were not investigated in this study such as meeting frequency of audit committee, AC tenure, and AC stock ownership in their analysis.



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