

**KWAME NKRUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY,  
KUMASI GHANA**

**ASSESSING THE ROLE AND EFFECTIVENESS OF AUDIT COOMITTEES IN  
SOME SELECTED RURAL BANKS IN GHANA**

**BY**

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of the requirement for the degree of**

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## **DECLARATION**

I hereby declare that this submission is my own work towards the Master of Business administration (Accounting Option) Degree and that to the best of my knowledge, it contains no material previously published by any other person or material which have been accepted for the award of any other degree of the University apart from where due acknowledgement has been made in the work.

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## **DEDICATION**

I dedicate this thesis to my late mother madam Margaret Adu Tutu who during her living days took care of me and sponsored my education to the tertiary level.

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## **ABSTRACT**

This study seeks to assess the roles and effectiveness of audit committees in three selected rural banks in the Ashanti Region, namely Juaben, Atwima Kwanwoma and Nwabiagya to address the weak internal controls in most rural banks. The objectives are to assess current state of the Audit Committee practices and its role in selected rural banks; to identify the main factors that improve the effectiveness of the Audit Committee practices in the rural banks selected; examine the contribution of audit committee to good corporate governance; and determine the challenges mitigating the efficient operations of the audit committees in the selected rural banks and their influence on both internal and external audit. A multiple case study approach was used with the simple random and convenience sampling for selecting board members and senior staff and systematic sampling for customers, a sample size of 100 comprising 30 senior staff/board members and 70 customers of the institutions was used. It was discovered that all the selected banks favoured the composition of their respective audit committees and they have adequate authority function. . Also, it was detected that the monitoring role of the committee to the external audit firm's compliance with the existing ethical and regulatory requirements in Ghana are not effective as required. The role of Audit Committee in recommending and approving the appointment or termination of the heads of the internal audit division has been less effective although it reviews the annual internal audit reports, budget and other findings of internal audit. . It is recommended that adequate resources be provided to the committees to facilitate their efficient delivery of service. The committees should up their game in playing their role of effective monitoring of both the external and the internal auditors. They should ensure that the internal audit enjoy the requisite independence in its operations. They are required to be involved in the appointment and termination of both the internal and external auditors to the company.

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## **CHAPTER ONE**

### **INTRODUCTION**

#### **1.1 Background of the Study**

The highly publicised accounting scandals in the United States involving giant international companies such as Enron and WorldCom greatly wobbled the confidence of shareholders in relation to the corporate financial reporting integrity in the entire global business community. In order to forestall the recurrence of such scandal and most importantly restore the shareholders and regulator confidence, several steps were undertaken to restructure the corporate governance in the U.S. The congress enacted the Sarbanes-Oxley Act which is known as the Corporate Oversight Bill in July 2002. Again, in line with the congress hard work the New York Stock Exchange (NYSE) and the NASDAQ adopted fresh corporate governance regulations for exchange listed firms which were accepted by the Securities and Exchange Commission (SEC) in November 2003. Both the Sarbanes-Oxley Act and the new corporate governance rules of the NYSE and NASDAQ put much prominence on greater autonomy from management and usefulness of the board of directors and the board of audit committees (Persons, 2005).

In order to guarantee reliability, high quality financial reporting has mainly focused on the formation of audit committees, whose task is to supervise the financial reporting process as well as the audit of financial statements. Obviously, outlook has been high on the audit committees to be more lively and participative in ensuring the good running of the companies (Madawaki, 2012).

Chaudhry (2013) indicated that audit committees are integral part of the governance structure of a company and arguably one of the largely essential and challenging sub-

committee of a firm's.. It is identified as a protector of a company's monetary uprightness (Rezaee, 2005) and has the prospect to develop the quality of financial information dissemination by crosschecking the monetary statements on behalf of the board (Cadbury, 1992).

## **1.2 Statement of the Problem**

The institute of internal auditors defines the audit committee as a subcommittee of the board of directors whose responsibilities include providing oversight of financial reporting, risk, management, internal controls,, compliance, ethics management, internal auditors and external auditors. Chaudry(2013) states that the audit committee is an integral part of the governance structure of a company's board of directors. It is seen as a protector of a company's financial integrity (Rezace, 2005) and has the ability to develop the quality of financial reporting by examining the financial statement on behalf of the board (Cadbury, 1992)

In the UK and US audit committees have been used to co-ordinate and monitor all aspects of the company's financial information dissemination process (smith, 2003). Audit committee is now a necessity for all recognised companies in the UK and US (The UK corporate Governance code, 2010; Sarbanes –Oxley, 2002).

However, in Ghana corporate entities and even the government had not taken any keen interest in audit committees' consequently two major banks owned by government that is Bank for Housing and Construction (BHC), Ghana cooperative Bank and recently Merchant Bank suffered bankruptcy and liquidation due to abysmal corporate governance practices whereby the roles of the audit committee were down played.

Recently, in the financial sector some banks have instituted audit committees to monitor internal control systems in their respective banks but according to Montia (2001) despite the institution of the audit committees internal control system of most rural banks are weak and that the banks need to strengthen their internal controls.

In the review of relevant literature it was found that no study has investigated audit committees in the rural banks.

The research therefore seeks to assess the roles and effectiveness of these audit committees since there is a knowledge gap that the research wants to fill.

### **1.3 Objectives of the Study**

This study's general objective is to assess the roles and effectiveness of audit committees in three selected rural banks in the Ashanti Region.

Specific objectives are as follows:

1. To assess current state of the Audit Committee practices and its role in selected rural banks.
2. To identify the main factors that improve the effectiveness of the Audit Committee practices in the rural banks selected.
3. To examine the contribution of audit committee to good corporate governance.
4. To determine the challenges mitigating the efficient operations of the audit committees in the selected rural banks and their influence on both internal and external audit.

### **1.4 Research Questions**

In order to achieve the above stated research objectives of the study the research questions as outlined below were posed:

1. What is the current state of the Audit Committee practices and its role in the selected rural banks?
2. What are the main factors that enhance the effectiveness of the Audit Committee practices in the rural banks selected?
3. What are the contributions of audit committee to good corporate governance?
4. What are the challenges mitigating the efficient operations of the audit committees in the selected rural banks and their influence on both internal and external audit?

### **1.5 Significance of the study**

This work seeks to examine the role and effectiveness of audit committees in some selected rural banks within Ashanti Region of Ghana with the expectation that it impacts on experts/professionals, managers of banking industry, Bank of Ghana, students and the general public.

The study seeks to provide support to the board of directors in understanding the important characteristics of the board and audit committees that play a key role in the quality of financial reporting and strengthening internal controls; thereby enhancing the overall financial reporting process and the entire financial systems at the rural banks.

The findings give policy implications as regulators such as ARB Apex Bank, Bank of Ghana among others continue to define and reshape the desired features and behaviour of audit committees. Therefore the findings of this study will ensure future policy alterations regarding audit committees that adequately informed.

## **1.6 Research Methodology**

In pursuance to achieve the objectives of the study the researcher employed a methodology based on both primary and secondary data with regards to the role and effectiveness of audit committee in the rural banking sector of Ghana. The sample for the study was taken from the staff and customers of three selected rural banks (namely, Nwabiagya Rural Bank, Atwima Kwanwoma Rural Banks and Juaben Rural Bank) in the Kumasi Metropolis. The sample unit of the study constituted board of directors and all senior staff from the various units of the banks and the ordinary customers of the selected rural banks. The investigator narrowed the sample to one hundred and twenty (120); comprising seventy-five (75) customers and forty-five (45) board members and senior staff (five board members and ten senior staff from each bank). The simple random and convenience sampling techniques were adopted in the selection of the sample units or respondents (board members and senior staff from the departments and systematic sampling method applied for the customers.

Two separate questionnaires designed and administered to board members and senior staff and consumers, for information on the subject matter were used in the collection of the primary data. The researcher considered both open-ended and closed-ended questions to ensure that answers given are as concise as possible. The structured questionnaires sought to give the required input in measuring the authenticity of various approaches which have profound understanding of the role and effectiveness of the rural banks.

The primary data that was collected using the questionnaires were assembled, coded and analysed with the right statistical techniques such as distribution tables, which are illustrated by the use of bars and pie charts through the via Microsoft Excel Software.

### **1.7 Scope of the study**

The study was carried out within the framework of examining the role and effectiveness of audit committee of rural banks. The study was carried out at the Juaben Rural Bank, Atwima Kwanwoma Rural Bank and Nwabiagya Rural Bank all located within the Kumasi Metropolis of the Ashanti Region. The study is done at chosen banks, in the Ashanti region. It is a case study method and will not include other players to reflect the entire banking industry's consumer attitude to electronic payment system.

### **1.8 Limitation of the Study**

This research has identified among others the following limitations that the study could encounter:

- The reluctance of management of the rural bank to release information which will help enriches the study and also establishes a strong validity and reliability.
- Lack of database on audit committee management strategies in the rural banking sector in Ghana.
- Enhancing the role and effectiveness of audit committee on rural banking development for rural dwellers is a sought after subject and must be discussed across other financial institutions. However looking at the time limit it is difficult to gather all the necessary information.
- Even though the rural bank's countrywide study would have been more proper, there are constraints of financial resources and unavailability of data as well as materials which will not make it possible to undertake nationwide



study. In addition, the researcher has to combine academic work with this study as well as his regular profession.

### **1.9 Organization of the Study**

The study was structured into five main chapters. Chapter one looked at the background of the study, the statement of the problem, research goals, and research questions and the importance of the study. The second chapter evaluated both theoretical and empirical literature in relation to the subject on the table. Chapter three deliberated on how the research was carried out. Chapter four captured the presentation, examination and deliberations of the data collected. Chapter five being the final section of the study covered the summary of the findings, conclusions, recommendation

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

This chapter directs much attention to the theoretical and empirical re-examination of literature in respect of the role of audit committee and its effectiveness on rural banking sector of the Ghanaian economy.

#### **2.2 The Concept of Rural Banking**

According to Lacoma (2010), rural banking is the process of performing banking business far away from where bank branches can be reached. Rural banking is good for very little towns and farmers who live far away from areas of larger population and cannot make the drive to these locations whenever they need to use banking services. Typically, an agent of the bank will visit these rural locations and offer to make transactions in an official capacity.

The 1992 Constitution of the Republic of Ghana makes a commitment to rural development as part of a national policy to uplift the living conditions in rural communities. In an effort to allay the government agency coordination problems, the constitution added a decentralization approach under which the national government creates political and administrative Regions and Districts. The decentralization follows a combined hierarchy model, with close ties between the centre and side-line (Essel& Newsome, 1995).

The lending operations of Rural Banks have been reorganized by the Central Bank to ensure that the credit of the banks benefited the small scale producer in the rural

community. Before giving a group loan, the Bank requires members respect each other and mutually trust themselves.

## **2.3 Legal and Regulatory Framework for the Implementation of Rural**

### **Bank Concept**

The rural banks were initiated in 1976 as a reaction to the limited infiltration of agricultural development bank into the rural areas and to better mobilize savings from local communities. The rural and community banks were licensed under the banking Act of 1970 (Act 339) with special rules by bank of Ghana permitting small unit banks to be established with a minimum capital of \$43,000 (compared to \$650,000 required for commercial banks at that time) provided that the capital was raised from the local community that the bank was serve. Thus simple adjustment of the regulations within the existing framework permitted the creation of rural bank without separate legislation. Until 1994, bank of Ghana provided the initial working capital of each rural bank in the form of preference shares. The rural banks were stopped from lending within the first 6 months of their establishment, capacity building of rural and community banks has been promoted by the association of rural banks and supported by projects of the World Bank, DANIDA and others.

During the 1990s, many of the more progressive rural and community banks found their growth and services to members constrained by high reserve requirements and unsatisfactory services from correspondent commercial banks, on whom they depended for clearing cheques, purchase of treasury bills, specie movement and other critical services. At the same time bank of Ghana saw the task of supervising over 130 rural and community banks spread throughout the country to be costly in terms of personnel and the high reserve requirement to be an overly blunt; if necessary

instrument to deal with varying capabilities among rural and community banks to manage funds. The outcome was an agreement to establish an ARB-APEX Bank as a licensed banking institution under the banking law 1989 PNDC Law 225 owned exclusively by rural and community banks and restricted to servicing them. Its establishment was supported by the World Bank (International Development Association – IDA) international fund for Agricultural Development (IFAD), the African Development Bank (IFDB), and the German Agency for Technical cooperation (GTZ) under the rural financial services project (R.F.S.P., Effective in 2001).

## **2.4 Rural and Community Banks in Ghana**

The significance of Rural and community Banks as providers of financial services to ensure growth in a mainly agricultural based economy cannot therefore be over-emphasised. The banks undertake a mix of micro finance and commercial banking activities structured to satisfy the need of the rural areas. They provide services by way of funds mobilization and loans to rural industry operators, farmers, fishermen and regular salaried employees. They also give loans to their customers for the payment of school fees, acquisition and rehabilitation of houses and to meet medical expenses. Some of the banks have subordinate companies engaged in consumer credit and other developmental activities. Rural and community Banks use part of their profits to meet social developmental activities such as donations to support education, health, traditional administration and the needy in their respective communities. Some of the banks have specific gender programmes focusing on women-in-development and credit-with-education activities for rural women. Rural/Community Banks are, therefore, the main vehicle for financial intermediation, capital formation and

retention of rural dwellers in the rural areas. According to the Bank of Ghana (2014) as at January 2013 there are over hundred and thirty-five rural banks in the ten regions of Ghana; details are enlisted in Appendix A.

## **2.5 The Challenges of Rural Banks in Ghana**

According to Addeah (2001), the efficient operations expected of the rural banks have been thwarted with various forms of difficulties which have obstructed the smooth operations of the rural and community banks in realizing fully the objectives under which the whole concept was executed to achieve.

Agama (1996) catalogued some of the numerous problems of the whole concept stretching it from the main regulatory foundation upon which the concept is built to capacity and governance. He enumerated some of the specific problems such as inadequate skilled and qualified staff, financial mal administration, operational difficulties, and local politics, non-compliance to standards and procedures and absence of an effective Apex body to provide support to rural /community banks.

The rural and community banks are banks owned by rural communities through buying of shares by members and are given license to give monetary support to the people living in the countryside areas. Rural banks were first operated in 1976 to extend savings mobilization and credit services in the countryside areas not served by commercial and development banks. The number increased rapidly in the early 1980s in response to the demand for rural banking services created by the government's introduction of special Akuafo cheques instead of cash payment to cocoa farmers. The few branches of commercial banks in the countryside were woefully insufficient to meet the demand of Akuafo cheques payment system that the government has

introduced. This was creating undue hardships to the farmers who often had to travel long distances or spend days at a nearest banking facility to cash their cheques. To solve this problem, more rural banks were quickly opened to provide services to areas without banking facilities (Steel & Andah, 2003)

Bronya (1997) states that as at January 1994, the government through the Bank of Ghana had to use tax payers' money to the tune of 611 million cedis to pay depositors of distressed rural banks in order to preserve the confidence of the public in the rural banking concept. Mittenorf (1986) admits that customers have little knowledge about facilities available at the rural banks and links this problem to lack of close linkage between the bank and their customers.

Addeah (2001) went further to analyse the whole legal and regulatory framework for the implementation of the whole concept. He examined the banking law of 1989 PNDC Law 225, the Banking Act of 1970 ACT 339, with special rules by Bank of Ghana permitting small unit banks to be formed. A critical analysis of his views exposes the inadequacies of that law as far as the modern day rural financial intermediaries are concerned. That provision in that law restricts the rural and community banks to operate within a radius of about thirty-eight kilometres of their area of location, and can only open agencies situated within this demarcated area of operations. They are unit banks and cannot open branches, one therefore begins to wonder the legal basis for the approval of rural and community banks branches in the city centres. Has the law restricting the opening of branch outlets outside their locality been amended? A careful look into the new banking act of 2004 ACT 673 did not give any special consideration to address this very legal and regulatory back-bone inadequacies.

## **2.6 Reforms of Rural Bank**

The regulatory framework for governing and supervising the rural banks was changed with the passage of the Association of Rural Banks (ARB) Apex Bank Regulations 2006, (L.I.1825). This framework specifies the responsibilities of the ARB Apex Bank and provides for the ARB Apex Bank to carry out a function same as that of a “central bank” for the rural banks subject to the overall decision-making authority of the Bank of Ghana (L.I. 1825) also give detailed guidance on the relationship between the Bank of Ghana and ARB Apex Bank and the rural and community banks, Association of Rural Banks, government, micro finance institutions etc. The Bank of Ghana also brought a number of rural banking reforms in February 2008 covering the ownership structure and governance, minimum reserve requirements, secondary reserve requirements, the loan ratification (Bawumiah, 2010).

## **2.7 Ownership Structure and Governance of Rural Bank**

Rural and Community Banks (RCBs) were established from inception as comminute-owned banks with members of the community as shareholders. Individual and corporate shareholding was therefore limited and decision making was based on a one-shareholder, one-vote principle. In this regard, even an individual or corporate entity that owned 30% of the shares were entitles to the same vote as one with 0.001% of the shares. This model generated widespread participated of the rural community in the affairs of the bank. In practice, however, this model was also at the same time limiting the ability of rural banks to raise capital as well as impacting negatively on the governance of the rural banks. Shareholders saw their purchase as shares not as an investment but as a social contribution and hardly took much of an interest in the day-

to-day running of the bank. Under this model, many rural banks were unable to raise the capital requirements of GH¢50,000 by the end of 2007 (Bawumiah 2010).

## **2.8 Structure and Performance of Rural Banking Industry in Ghana**

Recognised financial institution are the ones that are integrated under the companies law 1963 (Act 179) and which handed them lawful identification as limited liability firms and then certified by the Bank of Ghana (BOG) under the banking law 1989 (PNDCL 225) to give monetary services under Bank of Ghana rules. Most of the banks eye urban middle income and high net worth customers. Rural and Community Banks (RCBs) work as commercial banks beneath the Banking law, unless that they cannot embark on foreign exchange operation. Their clients are taken from their local area and their least capital requirement is meaningfully lower. The commercial banking system, which is conquered by a few macro banks (among the 23 total) reaches only about 5% of households most of which are excluded by high minimum deposit requirements. With about 60% of the money supply outside the commercial banking system, the rural and community banks and other micro finance institution play a significant role in Ghana's development and poverty alleviation strategies. The Assets of Rural and community banks are closed to 4% of those of the commercial banks (Steel & Andah) (2003).

## **2.9 The Concept of Auditing**

According to the International Standard on Auditing (ISA 300), Audit is an assessment of a firm's monetary information by a firm of independent certified public accountants. The assessment comprise of investigating the accounting records and other proof backing those financial statements. Through the studying and assessment of the company's system of internal control and by examination of records,



observation of assets, making investigation inside and outside the company, and other auditing rules, the auditors will gather the facts needed to decide whether the financial records provide a fair and reasonably complete picture of the company's monetary state and its activities during the period being audited, concludes.

The standard describes all the purpose of an audit and the basic principle which governs the professional responsibilities and should be complied with whenever an audit of financial information is carried out. The objective of an examination conducted by the independent auditors provides the basis for the audit report.

Again, the Auditing Practices Board of the United Kingdom (APB) defines an audit of financial statement as an activity whose main purpose is to enable auditors come out with their views on whether the monetary statement gives an honest view of an entity's affairs within a period and have been properly made in accordance with the prescribed rules that the monetary statements are in agreement with the basic principles and requires the use of auditing procedures and reporting practices appropriate to the particular circumstances.

For the purpose of this study, the standard definition is the one given by International Auditing Standards (ISA, 300) as a process carried out by chosen qualified individual or body whereby the records and financial information of a company or business are given independent investigation in such detail as will enable the auditor to express their views on their truth and fairness.

According to Lusztiget. al., (2001), the audit procedures will vary considerably from one engagement to the next. Many of the procedures appropriate to the audit of a small retail store would not be appropriate to the audit of a giant manufacturing

corporation. Auditors make examination of all types of business enterprise, and of not-for-profit organizations as well. Banks and breweries, factories and stores, colleges and churches airlines and labour unions all of these are regularly visited by auditors. The selection of the audit procedures best suited to each engagement requires the exercise of professional skill and judgment affirms Lusztig et al., (2001).

### **2.9.1 Importance of Auditing**

Concerning the importance of Auditing Zaney(2008) indicated that it helps to improve financial practices in business; accountability and transparency of transactions in that sector results in considerable savings to the nation. . A basic objective is to assign inadequate capital wealth to the production of goods and services for which the need is great. The independent auditor is to provide credibility to information (Ashon-Cudjoe, 2005). Credibility here means that the information can be trusted; that is outsiders such as creditors, government, customers and other third parties can depend on it. These third parties use the information to make various economic decisions such as to invest in the organization or not. Independent auditors have no personal interest in the business they audit, hence their report are expected to be impartial and free from bias declares Sloman& Sutcliffe (1998). On the importance of the auditing Ashon-Cudjoe (2005), emphasizes that since government activities and accomplishments are weighed against the provisions in the constitution, they must be in line with it. It is worth noting that regular auditing is an essential mode of exposing discrepancies in monetary issues – whether they are due to absolute fraud and corruption or through negligence in following laid down rules and procedures in attaining public assurance that public money is rightly spent.

## **2.10 Governance Role of Audit Committees**

The use of audit committees as main tool of governance reform from the early 1990s altered the type of scholarly investigation away from matters surrounding formation to more focused studies on the impact and characteristics of audit committees.

### **2.10.1 Audit Committees and the Statutory Audit Process**

Audit committees have always been seen as an important instrument in quest of developing the legal audit practice. The stream of research going into the association between audit committees and audit quality has sought to study this from a number of different perspectives such as: trying to understand how audit committees themselves perceive audit quality (Schroeder *et al.*, 1986); going through audit committee behaviour in the event of auditor-manager conflict (Knapp, 1987; Dezoort *et al.*, 2003a; Bierstaker *et al.*, 2012); the interaction between audit committees and external auditor behaviour (Collier and Gregory, 1996; Abbott *et al.* 2003a; Zaman *et al.*, 2011; Chan *et al.*, 2012).

Prior studies have analysed the perceived priority of audit committee members in oversight tasks (Dezoort 1997) and explored how audit committees help to understand the complex nature of the factors associated with the quality of audits (Schroeder *et al.*, 1986; Knapp, 1991). Research looking at audit committee member's perception of audit quality has found that audit committee members see the quality of audits, as measured by the auditor's ability to disclose material error, improving in the first few years of an auditor engagement but then note a drop in quality as auditor tenure lengthens (Knapp, 1991). This suggests that audit committees should focus on the length of time the auditor has been in place, paying particular attention to those auditors in place for a long period of time. This is particularly important as Knapp (1991) has noticed the auditor-client relationship results in a learning curve effect and

thus improves audit quality in the first few years of the relationship. However, as the relationship matures, complacency and over reliance can result in less rigorous audits. Moreover, Schroeder. (1986) note that audit committee chairs perceive audit quality from a slightly different perspective to other audit committee members. They assign more importance to audit team factors such as the level of partner/manager focus given to the audit' and 'planning and conduct of audit team work' as compared to reputation or the audit fee charged by the firm.

Another area of interest is the behaviour of audit committees in situations where management is in dispute with external auditors over audit matters. In particular, frequently profound differences exist between the audit committee chairs, management and external auditors on issues such as financial disclosure and discretionary accounting choices (Haka and Chalos, 1990). Evidence suggests that audit committee persons tend to back the outside auditor in audit disputes between the auditor and management, especially on financial standard disputes and when the financial position of the audited firm is poor (Knapp, 1987). Audit committee support for auditors on issues involving earnings trends and precise measurement of accounting issues is seen to be even stronger from members qualified as Certified Public Accountants (CPA's) and with greater relevant work experience (Dezoort *et al.*, 2003). Furthermore, audit committee members with greater experience as independent directors (i.e. multiple directorships) and auditing knowledge are also more probable to back external auditors in an auditor management dispute (Dezoort and Salterio, 2001). More recently Bierstaker *et al.*, (2012) in a US based experimental study involving six experienced audit committee members found that audit committee persons are more likely to back the auditor in an accounting disagreement when audit committee compensation includes long-term stock options.

In addition to the audit committee's perception of audit quality and its role in auditor management conflict, a significant stream of literature focuses on its role in the choice of external auditor. Auditor selection, evaluation and even dismissal are some of the primary responsibilities of the audit committee (Mautz and Neumann, 1970; Braiotta, 1994; BRC, 1999; Smith, 2003). One aspect of concern to earlier researchers was the potential for audit committees to favour larger auditors as they may be perceived to be providing better audit quality (Knapp, 1991), however Bradbury (1990) found that this relationship does not hold. More recent research on audit committees and auditor choice has sought to focus on two key areas; the choice of auditor (i.e. big 8 vs. non-big 8 audit firms or industry specialist auditors); and auditor retention/removal. Eichenseher and Shields (1985) found that companies with an audit committee are most likely to choose big 8 auditors. Specifically in relation to former Arthur Andersen clients, Chen and Zhou (2007) found those firms with larger, more autonomous audit committees with financial expertise were more likely to choose a big 4 auditor. Industry specialist auditors have been favoured by audit committees which are more independent (i.e. those audit committee's comprised entirely of outside directors) and who hold at least two meetings per year (Abbott and Parker, 2000). However Chen *et al.*, (2005), although agreeing with the impact of independence in favouring more specialised auditors, found that the number of meetings and financial expertise had no bearing on the choice of a specialist auditor. The difference in results is most probably due to the selection of country and sample year chosen for analysis. Abbott and Parker (2000) studied firms listed on US stock exchanges in 1994 however Chen *et al.* (2005) chose Australian listed companies in 2000.

Carcello and Neal (2003a) suggest there was no meaningful association between the level of audit committees' financial know-how and the probability of auditor change following a going concern statement. Lee (2004) stated that audit committees probably put more energy into working with the external auditor if they are more autonomous and have superior levels of financial expertise present. Referring specifically to suspicious auditor switching (i.e. removing auditors after receiving an unclean audit opinion or after disclosure of a reportable event), Archambeault and Dezoort (2001) suggest that those companies with less desirable audit committee characteristics, such as, committees with fewer members, fewer independent members, members with less expertise, holding fewer meetings were more likely to switch auditors.

Other themes that emerge from the literature are around the areas of auditor ratification and audit restatement/adjustments. There have been some contrasting findings from studies in respect of auditor ratification. For example, Raghunandan and Rama (2003) found audit committee independence to be a key characteristic which aids auditor ratification. However this has been rebutted by Krishnan and Ye (2005) who found audit committee independence and diligence did not matter. Instead they found a link between audit fees, audit committee financial expertise and auditor ratification; with higher audit fees and better expertise equating to a higher likelihood of companies seeking shareholder ratification.

The financial statements adjustment issue is usually at the cornerstone of management-auditor disputes (Knapp, 1987). It has also been suggested that although financial statement fraud is more likely to be found in interim reporting (Beasley *et*

*al.*, 2000), it has been found that adjustments are more likely to be recommended for year-end reports.

### **2.3.2 Audit Committees and Monetary Statement Quality**

Audit committees are taking responsibility for the of company's monetary statements quality (Combined Code, 2008). This increasing attention on audit committee duties has directed research to base on the performance of audit committees by examining the impact of audit committee (e.g. audit committee autonomy, expertise and meeting frequency) on financial reporting outcome (e.g. alleged fraud cases, misstatements or restatements (Beasley *et al.*, 2009). Several studies have sought to capture the concept of financial dissemination quality, in relation to the role of audit committees, in three ways. First, a collection of studies have focused on instances of alleged fraud and misstatements and/or restatements (Archambeault *et al.*, 2008; Abbott *et al.*, 2004). Second, a logically leading strand of investigation has focused on analysing the actual reported numbers, commonly referred to as earnings quality (Kent *et al.*, 2010; Baxter and Cotter, 2009; Vafeas, 2005. Finally, a number of researchers have assessed the firm's position on the mechanisms and level of revelation (Kent and Stewart, 2008; Mangena and Pike, 2005).

The impact of audit committee and the occurrence of alleged fraud or irregularities show that firms investigated for instances of financial statement frauds are doubtful to have an audit committee (Beasley *et al.*, 2000). Evidence also suggests that audit committees have a clear influence on financial statement quality as audit committees are linked with smaller number of lawsuits of alleged frauds from shareholders and fewer SEC enforcement actions (McMullan, 1996). The many investigation on the linkage between various features of audit committees as signals of its quality and

financial statement fraud also documents similar results. Analysis of US companies subject to allegations of fraud by the SEC shows that audit committees in the various companies were less autonomous, possessed less financial expertise, and were less active (Beasley *et al.*, 2000).

Martinez *et al.* (2007) also noted that audit committees with small numbers in terms of membership and higher rate of member autonomy are less likely to get non-compliance qualification. Goodwin and Seow (2002), in a Singapore based survey, also reported that audit committees with fully independent members and all with some financial expertise are undoubtedly able to prevent financial statement errors and detect incidences of fraud. Previous work on the varying magnitude of financial capability reveals that the actual type of accounting capability can manipulate the audit committee's evaluation of financial information dissemination quality (McDaniel *et al.* 2002).

The occurrence of financial statement misstatement costs a lot to shareholders and certain instances the reputation of audit committee members are affected (Srinivasan, 2005). The attributes of audit committees for example independence, activity and expertise, have a negative association with occurrences of restatements (Abbott *et al.*, 2004). There is a confirmation in another US based experimental study (Magilky *et al.* 2009), which concluded that members of the audit committee are only truthful in financial information dissemination when they are not motivated with stock based compensation. Cullinan *et al.* (2008) mentioned that independent boards with no option grants are associated with a reduced probability of misstatement. They were unsuccessful to find a statistically important linkage between audit committee independence and misstatements. For share options compensation, there seems to be



an agreement on the view that share options decrease the effectiveness of audit committee persons and hence reduce financial reporting quality.

These findings clearly show that a share option policy for audit committee persons weakens their effectiveness in monitoring and overseeing financial reporting process. The issue of director option remuneration has also gained focus in the UK governance policy recommendations. Combined Code (2003) clearly states that directors who are not executives should not be given options over the shares in their companies.

Studies have shown that the financial expertise of an audit committee commands a vital role in its voluntary disclosure practices, for both interim (Mangena and Pike, 2005) and internet (Kelton and Yang, 2008) disclosure. Again, the powerful effect of audit committee autonomy on revelation levels of financially broke firms shows that non-independent audit committee persons were positively linked with the hopefulness of firms' going-concern revelations (Carcello & Neal, 2003).

### **2.3.3 Audit Committee and the Internal Audit Function**

Smith, (2003) stressed that Audit committees responsibilities includes monitoring and overseeing of the efficiency of the internal audit role in the overall financial reporting process. Furthermore, Cohen *et al.* (2004) states that a close link between the audit committee and the internal audit function enhance the governance abilities of both sides. The increasing scope and responsibilities of audit committee persons in the oversight of the dissemination of monetary information makes the evaluation of audit committee member's perception of their assigned oversight responsibilities even more important. Audit committees perceive internal control evaluations as one of their most important responsibilities in the oversight process (Dezoort, 1997; Cohen *et al.*, 2004); however, the measurement of such perception is not a trivial task. Zainet *al.* (2006) showed that audit committees which are autonomous and well versed in

accounting and auditing practices are better linked with the inside auditors' examination of their stake towards external audit. These findings suggest that organisations with properly audit committees have the opportunity to gain from the effort made by the internal audit function in terms of financial statement audit. Audit committees always seek the support of the internal audit in areas such as internal audit control procedures.

Goodwin and Yeo (2001) argue that audit committees provide an autonomous medium for auditors inside the firm to discuss matters relating to their independence. Issues such as; the functional reporting lines for internal auditors; the use of internal audit role as a training medium for management; and, most importantly, the hiring and firing of the chief inside auditor.

The Institute of Internal Auditors (IIA, 2004) argue that reporting lines are the main source of internal audit autonomy and are vital for good corporate governance. They therefore urge chief audit executives (CAE) to account straight to audit committees. However, the use of the internal audit to train future managers was found to be widespread, thus posing a threat to the objectivity of the inside auditor (Goodwin and Yeo, 2001). It has also been stated that the influence of audit committees in the substitution of the chief internal auditor also reduces the influence of management and therefore gives more power to the internal audit function (Scarbrough *et al.*, 1998; Goodwin & Yeo, 2001; Goodwin, 2003). The evidence, however, suggests that audit committees do not always provide sufficient protection to the chief internal auditor against the threat of dismissal as Scarbrough *et al.* (1998) found.

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

This section of the work shows the research style used with respect to the objectives of the study by ensuring the application of the appropriate methodology. Among the issues to be discussed in this chapter are the research design, population, sampling procedures and sample size, data collection technique and research instrument. .

#### **3.2 Research design**

The research plan of a study illustrates the rational form of proof that enables the researcher to make inferences about the underlying associations among the variables under investigation Frankfort-Nachmias and Nachmias (1996). It represents all the means for gathering information in order to answer the research questions. Sekaran (2003), postulated that the numerous matters involved in the research design concerns the type of investigation, purpose of the study, the type of sample used, the methods by which the needed information were collected, as well as the procedure followed for the analysis. It also talks about the data analysis methods the researcher intends to use. Three major approaches are mostly considered by researcher during research methodology. These are quantitative, qualitative or mixed approaches. However, Ghauri et al. (1995) maintained that quantitative and qualitative methods are two types of research methods mostly used by researchers. According to Saunders et al. (2007) qualitative method is the most used technique whereby the collection method of the study uses or generates non-numerical data. The focal reason of the qualitative research is to seek insights into research problems. Therefore, by asking questions to relatively small samples of respondents and observing respondents behaviours,

qualitative information mainly focuses on gathering of primary data with details (Hair et al., 2006).

The quantitative approach was used for this study.

### **3.3 Population**

Population is the collection of people with common characteristics which interest the researcher Agyedu et al (1999). . The chosen people for the work are made up of all board members, senior staff and customers of rural banks within the Ashanti Region. A total of 3,000, 000 was obtained.

### **3.4 Sample Size**

. The sample for the study was taken from the staff and customers of three selected rural banks (namely, Nwabiagya Rural Bank, AtwimaKwanwoma Rural Banks and Juaben Rural Bank) in the Kumasi Metropolis. The sample unit of the study constituted board of directors and all senior staff from all units of the banks and the ordinary customers of the selected rural banks. The researcher shortened the sample size to one hundred and twenty (120); comprising seventy-five (75) customers and forty-five (45) board members and senior staff (five board members and ten senior staff from each bank).

### **3.5 Sampling Technique**

In order to get a precise outcome for this study, people who were directly included in the work of the rural banks in respect of senior staff (management), board of directors and customers were thus selected

In this study the purposive sampling method was used in choosing the sample units or respondents from the senior staffs and board members and systematic sampling

method applied for the selection of customers. The purposive sampling was adopted for the selection of banks staffs since the intention was to gain an insight into the phenomena hence the need to choose personnel who were well versed with auditing and financial reporting in the rural banking industry. As a result of this, members of staff directly responsible for operations were approached and interviewed. Purposive sampling was also used to choose which branch of the banks to visit within the metropolis for the work. This was done there are other branches of the selected banks in the Kumasi Metropolis.

### **3.6 Research Instruments**

Questionnaire was the main instrument use for the collection of data. The questions used were in the open ended and closed-format. In the open ended question, the people answering them produced the answers on their own. The closed format forced respondents to choose between several given options while the open ended format allowed exploration of the range of possible themes arising from an issue. The closed-ended format was easy and fast to answer; thereby minimizing unfairness on the side of the less literate.(Leung, 2001).

### **3.7 Administration of Questionnaire**

The questionnaires were given out by me. Interview questionnaire given out were carried out face to face. The giving out of the questionnaires was economical and simple. It maintained privacy and was completed at the respondent's expediency.

### **3.8 Method of Data Collection**

Data collection is the process of assembling information to address the significant questions that had been identified earlier in the work. Many ways of gathering information, and a wide variety of information sources were found.

Information was gathered from both primary and other secondary sources. Primary information was obtained through questionnaires. Secondary information was gathered using journals, textbooks, handbooks and manuals, review articles and editorials, literature review, informal talks with experience peoples, classmates, seminars and conferences as well as published guides. Data on the internet were found using search tools. The World Wide Web was searched for information.. Search engines such as Yahoo (<http://www.yahoo.com>), Google (<http://www.google.com>) and MSN (<http://www.msn.com>) were used to access vast information on SMEs that assisted in the study.

### **3.9 Validity and reliability**

The quality of the research is often judged by the validity, reliability and credibility of the research methodology and information. Validity means the degree to which a measure truly shows the idea it tends to measure. If the measures used really measure what they claim to, and if there are no logical errors when making conclusions from the data, the study is said to be valid (Trochim, 2005).

### **3.11 Ethics Statement and Limitations of the Methodology**

In undertaking this study various the researcher adhered to the Code of Research Ethics by ensuring that respondents were aware of their participation in the exercise and the study re is undertaken with their permission.

## **CHAPTER FOUR**

### **DATA PRESENTATION, ANALYSIS AND DISCUSSIONS**

#### **4.0 Introduction**

This chapter is about the presentation, discussion and analysis of data collected from the field.

The study used descriptive statistics and diagram such as bar chart to represent broad views of both staff and customers alike; frequencies, percentages, means and standard deviation and other statistical charts were used in elucidating main points of the research where necessary.

#### **4.1 Response Rate**

The response obtained from the administered questionnaires to senior staff/board members and customers of the selected rural banks within the Kumasi Metropolis revealed that out of the total one hundred and twenty (120) copies of the questionnaires distributed a total number of one hundred and five (105) questionnaires were received and hundred (100) accepted (representing 83.33% of response); thereby indicating that fifteen (15) questionnaires were not returned five (5) were rejected (3) because the respondent answered them erroneously. The response rate is shown in Table 4.1



## 4.1 Response Rate

**Table 4.1** shows the distribution of response Rate

Detail	Questionnaires Administered	Questionnaires Received	Questionnaires Accepted	Percentage (%)
Nwabiagya Rural Bank	40	36	33	33.00%
AtwimaKwanwoma Rural Bank	40	32	32	32.00%
Juaben Rural Bank	40	37	35	35.00%
<b>Total</b>	<b>120</b>	<b>105</b>	<b>100</b>	<b>100.00%</b>
<b>Percentage (%)</b>	<b>120.00%</b>	<b>105.00%</b>	<b>100.00%</b>	

Sources: *Author's field work, August, 201*

## 4.2 Analysis of Respondents Characteristics

This section shows the gender distributions, level of education; the occupation distribution and number of years they have been with their respective banks in capacity as board/staff members and customers.

### 4.2.1 Gender Distribution of Respondents

**Table 4.2.1** Shows the Gender Distribution of Respondents

Bank	Details				Total			
	Staff		Customers		Staff	Customer		
	Male	Female	Male	Female	Male	Female	Total	Percent (%)
Nwabiagya Rural Bank	4	6	13	10	17	16	33	33%
AtwimaKwanwoma Rural Bank	3	7	14	8	17	15	32	32%
Juaben Rural Bank	5	5	15	10	20	15	35	35%
<b>Total</b>	<b>12</b>	<b>18</b>	<b>42</b>	<b>28</b>	<b>54</b>	<b>46</b>	<b>100</b>	<b>100%</b>
<b>Percent (%)</b>	<b>12%</b>	<b>18%</b>	<b>42%</b>	<b>28%</b>	<b>54%</b>	<b>46%</b>		

Sources: *Author's field work, August, 2015*

Table 4.2.1 shows that 54% (12% - staff and 42% - customers) of respondents were male while 46% (18% - staff and 28% - customers) were female. The low representation of female for customers could be attributed to the fact most of the rural folk women are not well educated and their appreciation to the subject matter is low as compared to the male who understood the issue on the table. On the other hand, staff had more female representation since the female units are high with all the banks.

A cursory analysis showed that Juaben Rural Bank represented that modal class for both male and female with 20% male and 15% female (totalling 35%); followed by

Nwabiagya Rural Bank which recorded 17% male and 16% female; and

Atwima Kwanwoma Rural Bank which registered the least representation with 17% male and 15% female.

#### 4.2.2: Educational Level of Respondents

**Table 4.2.2 Show the Educational Level of Respondents**

<b>Level</b>	<b>Staff</b>	<b>Customers</b>	<b>Total</b>	<b>Percentage (%)</b>
Tertiary	15	9	24	24%
Diploma	5	11	16	16%
Professional	10	7	17	17%
Secondary	0	25	25	25%
Basic	0	10	10	10%
Non-Formal Education	0	8	8	8%
<b>Total</b>	<b>30</b>	<b>70</b>	<b>100</b>	<b>100%</b>
<b>Percentage (%)</b>	<b>30%</b>	<b>70%</b>	<b>100%</b>	

Sources: *Author's field work, August, 2015*

On the educational level of respondents, the study reveal that, majority (25%) of the respondents (only consumers) are holders of secondary school certificates; 24% are

holders of tertiary certificates (both graduate and postgraduate degree);17% (10% of senior staff and 7% of consumers) holds professional certificates in their respective fields and 10% (only consumers) holds basic level certificates while 8% are illiterate. This finding shows the diversity in terms of educational backgrounds of respondents of both staff and customers of the selected banks who could be assumed to have perfect understanding of the role and effectiveness of Audit Committee in the banking industry of Ghana.

#### 4.2.3: Number of years both Staff and Customers have been with Bank

**Table 4.2.3** Show the Number of years both staff and customers have been with Bank

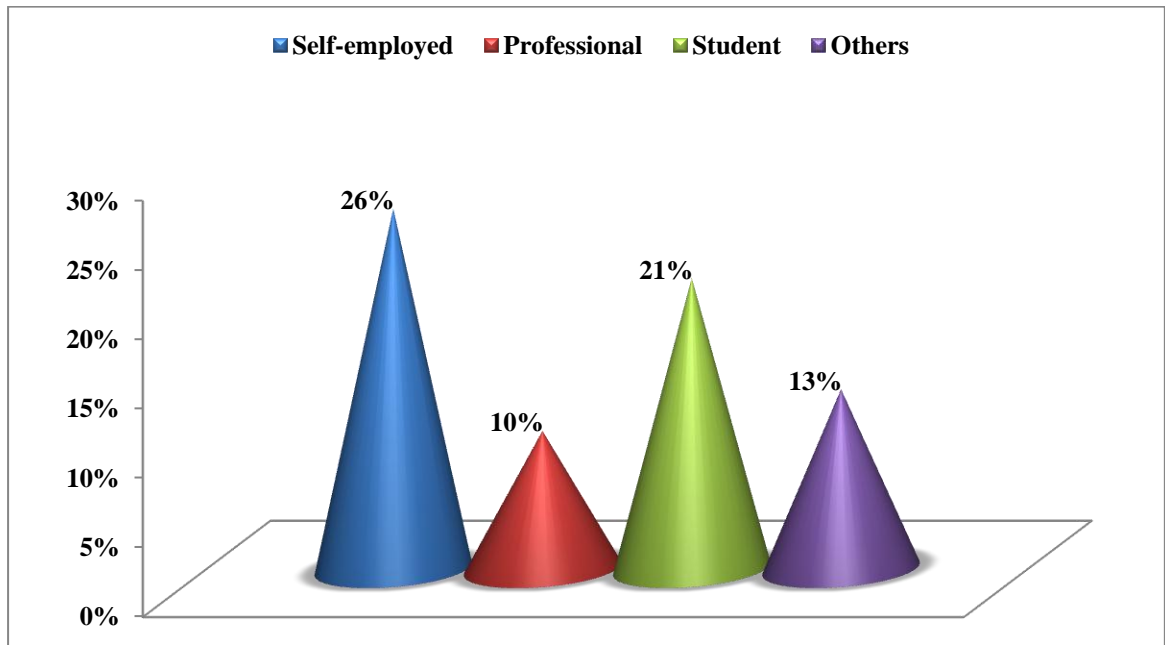
Level	Staff	Customers	Total	Percentage (%)
Less than 5 years	5	28	33	33%
Between 6 - 10 years	15	27	42	42%
Above 10 years	10	15	25	25%
<b>Total</b>	<b>30</b>	<b>70</b>	<b>100</b>	<b>100%</b>
<b>Percentage (%)</b>	<b>30%</b>	<b>70%</b>	<b>100%</b>	

Sources: *Author's field work, August, 2015*

About the number of years respondents have been with their banks, the study found that, majority (42.00%) have been with their institutions between 6 and 10 years; 33.00% attained less than 5 years and 25% above 10 years. This finding suggest that, most of the respondents have worked with their banks either as a staff or customer for quite a longer period of time hence are good representatives to testify on the subject matter on Audit Committees.

#### 4.2.4 Occupation distribution of respondents (customers)

**Figure 4.2.4 Show the Occupation Distribution of Respondents of the Customers In the three Selected Rural Banks.**



Sources: *Author's field work, August 2015*

As indicate on Figure 4.2, professions of customers were found to range from self-employed who forms the majority of the respondents with 26%, followed by students who also accounts for 21%, 'others' who falls within other professions other than what's stated also accounted for 13%, and then the professionals with 10%. This also shows the differences in individuals sample for the study, in that the study covers all shades of business people who could provide very informed discussion on the subject matter.

#### **4.3: Analysis of Audit Committee Practices In The Three Selected Rural Banks**

This section about the audit practices in the three selected rural banks.

To find out the state of the audit committee practices in the selected rural banks. This question was asked: what is the current state of the Audit Committee practice and its role in the selected rural banks.

As stated in the above research question, the study seeks to ascertain the current state of the Audit Committee practices and its role in the selected rural banks.

In view of this a 5 point Likert scale was used for the various measurements of the study which intended to know the extent of agreement with an assertion or disagreement with the assertion on the role and effectiveness of audit committees in Juaben, AtwimaKwanwoma and Nwabiagya rural banks have made on the composition, authority and resources, diligence, meeting, role in financial reporting, role in external auditing, role in internal auditing of audit committees.

The weighted scaled assumed for the study is as shown below:

For a five point Likert Scale: 5 – Strongly agree, 4 – Agree, 3 – I am not sure, 2 – Disagree, 1 - Strongly disagree. The Mean measures the average response in joint manner to each factor given by

$$\mu = \frac{1}{N} \sum_{i=1}^n xy_i$$

Where:

$x$  is the number of respondents agreeing to the factor?

$n$  is the total number of respondent for extent of agreement or disagreement

$N$  is the total number of respondents involved in the response and

$y_i$  is the assigned weight to the level of agreement or disagreement

Therefore, for the analysis of the eight variables on the prevailing audit committee and its role in Juaben, AtwimaKwanwoma and Nwabiagya rural banks is shown in Tables 4.4, 4.5, 4.6, 4.7, 4.8, 4.9, 4.10 and 4.11 (all in respect of senior staff/board) while Table 4.12 illustrates customers response.

#### 4.3.1: Analysis of Audit Committee Composition

**Table 4.3.1 Show the Detailed Analysis of the Committee Composition in the selected rural banks**

Details	Mean		
	Juaben	AtwimaKwanwoma	Nwabiagya
The AC members are selected in consultation with the AC chair.	4.02	4.02	3.94
The AC members have enough ideas on the entity's business.	4.22	4.02	4.02
The AC members have broad knowledge on Accounting and/or Auditing practices.	4.02	4.51	3.85
The AC members have enough experience in Accounting and/or Auditing.	3.85	3.45	3.63
The majority of AC members are independent /non-executive directors.	4.19	4.01	3.74
The size of the AC is good for performing its duties properly.	4.15	4.21	4.05
<b>Average</b>	<b>4.08</b>	<b>4.04</b>	<b>3.87</b>

Sources: *Author's field work, August, 2015*

The first major variable which comprises six factors, namely, ‘The audit committee persons are chosen in consultation with the AC chair.’, ‘The AC persons have enough ideas on the firm’s activities’, ‘The AC persons have enough knowledge on Accounting and/or Auditing practices’, ‘The AC members have sufficient experience in Accounting and/or Auditing’, ‘The majority of AC persons are independent /non-executive directors’, and ‘The size of the AC is suitable for carrying out its duties properly’ assessed the composition of the Audit committees of the selected rural banks has been analysed. As shown on Table 4.4, all the rural banks were found to have a higher mean value across board indicating a general agreement of adherence to good composition of the audit committees of the rural banks

#### 4.3.2: Analysis on Authority and Resources

**Table 4.3.2 Show the Analysis on Authority and Resources on the Audit Committees in the Banks.**

Detail	Mean		
	Juaben	AtwimaKwanwoma	Nwabiagya
The AC has adequate authority in order to carry out its responsibilities.	3.88	3.69	3.91
The AC has ready access to relevant information if required.	3.96	3.81	4.11
The AC receives prompt responses from the management in carrying out its duties.	3.94	3.86	3.86
The AC is provided with sufficient resources including secretarial support to carry out its duties.	3.95	3.75	3.93
The non-executive AC members are adequately paid for their time and efforts.	3.59	3.86	3.99
<b>Average</b>	<b>3.86</b>	<b>3.79</b>	<b>3.96</b>

Sources: *Author’s field work, August, 2015*

Table 4.5 Show Authority and Resources assessment across the selected rural banks with respect to five various factors were done. The study found that with the exception of Nwabiagya that measured a mean of 4.11 in relation to ‘The AC has ready access to relevant information if required’, all the banks attained mean below 4.0 but above 3.50 indicating a general acceptance of the ‘Authority and Resources. In general terms, all three selected rural banks had means over 3.7; specifically, Juaben recorded 3.86 (77.2%), AtwimaKwanwoma recorded 3.79 (75.80%) and Nwabiagya coming up with some 3.96 (79.2%) being the highest. It is instructive to note that, these values were more than 3.5; thereby indicating a more acceptance in terms of proportion than those indicating neutrality, hence all the banks agreed that the Audit Committees have adequate authority and resources to function.

#### 4.3.3 Analysis on Diligence

**Table 4.3.3 Show the Analysis on Diligence as an Audit Committee practice**

Detail	Mean			
	Juaben	AtwimaKwanwoma	Nwabiagya	Average
The AC has a charter which outlines its objectives, duties and responsibilities.	3.57	4.44	3.52	3.84
The AC charter is reviewed annually.	3.87	4.51	3.45	3.94
The AC members have a clear understanding of their responsibilities.	4.14	3.98	3.97	4.03
Members of the AC readily assume their responsibilities.	3.57	4.17	3.87	3.87
The AC members devote sufficient time to the committee's affairs.	4.19	3.97	4.17	4.11
<b>Average</b>	<b>3.87</b>	<b>4.21</b>	<b>3.80</b>	

Sources: *Author's field work, August, 2015*



Diligence as a variable was assessed among all three rural banks and found has a comparatively high value of mean above 3.5 as shown on Table 4.6. These banks indicated an average highest score of 4.11 (representing 82.2%) for the factor ‘The AC members devote sufficient time to the committee's affairs; followed by ‘The AC members have a clear understanding of their responsibilities’ scoring 4.03 (80.60%). The least scored mean of 3.84 (76.8%) went to the factor ‘The AC has a charter which outlines its objectives, duties and responsibilities’.

In summary, the selected banks scored average mean of 3.87 (77.40%), 4.21 (84.20%) and 3.80 (76%) vis-à-vis Juaben, AtwimaKwanwoma and Nwabiagya rural banks respectively; indicating that all the banks agreed that the Audit Committees exercises adequate diligence to function.

#### 4.3.4 Analysis on Meetings

**Table 4.3.4 Show the Analysis on Meetings as an Audit Committee Practice in the rural banks selected.**

Detail	Mean			Average
	Juaben	AtwimaKwanwoma	Nwabiagya	
The chairs cooperate with other committee members before finalizing the agenda of the meetings.	3.52	4.19	3.97	3.89
The matters to be discussed and related items are provided to members ahead of the meetings.	3.45	4.11	3.89	3.82
All members can air their ideas freely and independently in the meetings.	3.97	4.21	3.99	4.06
The period of the AC meetings is enough for full deliberations of important issues.	3.87	3.99	3.72	3.86
The outcome of previous meetings of the AC is circulated to all members of the Board of Directors (BODs).	3.45	4.14	2.85	3.48
<b>Average</b>	<b>3.65</b>	<b>4.13</b>	<b>3.68</b>	

Sources: *Author's field work, August, 2015*

Table 4.3.4 showed the variable on meetings of the Audit committee which was assessed severally looking at the five factors, scoring 3.89, 3.82, 4.06, 3.86 and 3.48 for 'The chairperson liaise with other committee members before preparing the matters to be discussed at the meetings', 'The matters to be discussed and related items are given to members ahead of the meetings', 'All members can air their ideas freely and independently in the meetings', 'The period of the AC meetings is enough for a lengthy deliberations of important matters' and 'The outcome of previous meetings of the AC meetings are given to all directors on the board respectively.

In general terms all the factors measured scored mean above 3.50, although Juaben recorded 3.45 with respect to ‘The issues to be discussed and related items are provided to members fairly ahead of the meetings’ and ‘The previous matters of the AC meetings are circulated to all members of the Board of Directors (BODs)’. However, the least mean was scored by AtwimaKwanwoma, 2.85 (57%) in terms of the latter factor. Summarily, the variable Meeting showed a mean of 3.65 (73%), 4.13(82.60%) and 3.68 (73.60%) for Juaben, AtwimaKwanwoma and Nwabiagya respectively;indicating that all the banks affirmed that the Audit Committees practices all the requisite appropriate ground rules before, during and after meeting. Hence, meetings are conducted in ambience appropriate for effective discussion.

### 4.3.5 Analysis on Role in Financial Reporting

**Table 4.3.5 Show the Analysis on Role in Financial Reporting in the three Rural Banks.**

Detail	Mean			
	Juaben	AtwimaKwanwoma	Nwabiagya	Average
The AC reviews the integrity of the banks' financial statements.	4.19	3.97	4.17	4.11
The AC reviews accounting policies and any changes made therein.	4.11	3.89	4.07	4.02
The AC reviews accounting estimates and judgments done in preparing financial statements.	4.21	3.99	4.17	4.12
The AC reviews the compliance of the Accounting Standards in preparing financial statements.	3.99	3.72	3.84	3.85
The AC reviews the clarity and completeness of disclosures in financial statements.	3.78	3.95	4.02	3.92
<b>Average</b>	<b>4.06</b>	<b>3.90</b>	<b>4.05</b>	<b>4.00</b>

Sources: *Author's field work, August, 2015*

In Table 4.3.5, the study assessed the role of Audit Committees in Financial Reporting. Under this variable, five factors were considered; and in each bank, irrespective of the factor scored a mean over 3.70 (74%). Atwima Kwanwoma recorded the least mean of 3.72 on factor, 'The AC reviews the compliance of the

Accounting Standards in preparing financial statements'. Juaben rural bank registered the highest mean of 4.19 (83.80%) on the factor, 'The AC reviews the integrity of the banks' financial statements'.

A cursory look at the factors, the study revealed that 'The AC reviews accounting estimates and judgments done in preparing financial statements' recorded the highest average mean of 4.12 (82.40%) among the three selected rural banks, while 'The AC reviews the compliance of the Accounting Standards in preparing financial statements' scored 3.85 (77%), being the least.

Summarily, the study showed that average of 4.00 for all three banks; severally, Juaben, Atwima Kwanwoma and Nwabiagya scored 4.06, 3.90 and 4.05 respectively. This is an indication that the banks recognizes the important role of the audit committee in financial reporting and it is agreement with (Beasley *et al.*, (2000) and McMullan (1996) postulating the fact that audit committees have a positive impact on financial statement quality as the presence of audit committees are associated with fewer lawsuits of alleged fraud from shareholders and fewer SEC enforcement actions. The role exhibited by the three selected rural banks are contrary to certain audit committees which possessed less financial expertise, and were less active (Beasley *et al.*, 2000).

#### 4.3.6 Analysis on Role in External Auditing

**Table 4.3.6 Show the Analysis on Role in External Auditing of the three Rural Banks.**

Detail	Mean			Average
	Juaben	AtwimaKwanwoma	Nwabiagya	
External auditors are appointed and/or removed upon the recommendation of the AC.	4.13	3.96	3.24	3.78
The AC monitors the external audit firm's compliance with the existing ethical and regulatory requirements in Ghana.	2.63	2.67	3.33	2.88
The AC rechecks the outcome of the yearly audit obtained by the external auditors.	4.25	3.87	3.93	4.02
The AC rechecks the management's responsiveness to the external auditors' findings.	3.75	4.02	3.04	3.60
The AC reviews and monitors the independence and effectiveness of the external auditing process.	3.88	4.04	4.08	4.00
<b>Average</b>	<b>3.73</b>	<b>3.71</b>	<b>3.52</b>	<b>3.65</b>

Sources: *Author's field work, August, 2015*

Role in External Auditing saw an agreement among all respondents in all banks as they all had a mean value either close to 4.0 or slightly above it. Juaben and

Atwima Kwanwomaregistered the least mean values of 2.63 (52.60%) and 2.67 (53.40%) respectively, in terms of 'The AC monitors the external audit firm's compliance with the existing ethical and regulatory requirements in Ghana'; which

indicates a disagreement or near neutrality on that factor. The same factor indicated by its average mean score across all the banks with its 2.88 score that ‘The AC monitors the external audit firm's compliance with the existing ethical and regulatory requirements in Ghana’ are not effective as required.

However, there was a collective agreement among banks to the fact that the role of audit committee in external auditing could not be overemphasised as evidenced by the overall average mean of 3.65 across all three selected banks.

#### 4.3.7 Analysis on Role in Internal Auditing

**Table 4.3.7 Show the Analysis on Role in Internal Auditing**

Detail	Mean			
	Juaben	Atwimakwanwoma	Nwabiagya	Average
The AC Recommends And Approves The Appointment Or Termination Of The Heads Of The Internal Audit Division.	3.97	2.84	3.04	3.28
The AC Reviews The Annual Internal Audit Reports, Budget And Other Findings.	4.32	4.27	4.03	4.21
The AC Reviews And Monitors The Management's Responsiveness To The Internal Auditor's Findings And Recommendations.	3.08	2.44	2.65	2.72
The AC Enhances The Independence Of The Internal Auditors Of The Bank.	4.12	4.25	3.89	4.09
The AC Monitors And Evaluates The Effectiveness Of The Internal Audit Function.	3.04	2.45	2.74	2.74
<b>Average</b>	<b>3.71</b>	<b>3.25</b>	<b>3.27</b>	<b>3.41</b>

Sources: *Author's field work, August, 2015*

Audit Committee plays a major role in the internal auditing activities of the various banks which lays credence to Smith (2003) assertion that audit committees are responsible for the monitoring and overseeing of the effectiveness of the internal audit function in the overall financial reporting process; evidenced by the overall average mean value of 3.41. However, the study found that, majority of the banks (especially, Atwima and Nwabiagya) disagreed to the factor, ‘The AC monitors and evaluates the effectiveness of the internal audit function’; resulting into average mean value of 2.74 (54.80%). The aforementioned banks had disagreement with ‘The AC reviews and monitors the management's responsiveness to the internal auditor's findings and recommendations’ evidenced by the 2.72 mean scored.

#### 4.3.8 Analysis on Overall Practice

**Table 4.3.8 Show the Analysis on Overall Practice of Audit Committee in the Three Rural Banks.**

Detail	Mean			
	Juaben	AtwimaKwanwoma	Nwabiagya	Average
The AC recommends and approves the appointment or termination of the heads of the internal audit division.	3.44	2.94	2.56	2.98
The AC reviews the annual internal audit reports, budget and other findings.	4.05	4.01	4.06	4.04
<b>Average</b>	<b>3.75</b>	<b>3.48</b>	<b>3.31</b>	<b>3.51</b>

Sources: *Author's field work, August, 2015*

Table 4.3.8 which assessed the overall practice of the audit committees of the three selected banks, showed a low score of 2.98 as per ‘The AC recommends and approves the appointment or termination of the heads of the internal audit division’, while ‘The



AC reviews the annual internal audit reports, budget and other findings' recoded 4.04. However, in general terms, all three banks showed mean values above 3.30 which indicate neutrality of the overall practices of audit committee.

#### 4.3.9 Summary of means

**Table 4.3.9 Show the Summary of means of all the practices of Audit Committee in the Three Rural Banks.**

Details	Mean			
	Juaben	AtwimaKwanwoma	Nwabiagya	Average
Composition	4.08	4.04	3.87	3.99
Authority and resources	3.86	3.79	3.96	3.87
Diligence	3.87	4.21	3.80	3.96
Meeting	3.65	4.13	3.68	3.82
Role in Financial Reporting	4.06	3.90	4.05	4.00
Role in External Auditing	3.73	3.71	3.52	3.65
Role in Internal Auditing	3.71	3.25	3.27	3.41
Overall Practice	3.75	3.48	3.31	3.51
<b>Average</b>	<b>3.84</b>	<b>3.81</b>	<b>3.68</b>	<b>3.78</b>

Sources: *Author's field work, August, 2015*

Table 4.3.9 demonstrates the average mean score of all the variables in relation to the banks. All three banks below 4.00, hence the sense of neutrality rather than disagreement was revealed. Concerning the eight variables, 'role of financial reporting' scored 4.00 and composition very close with 3.99, diligence 3.96, authority and resources 3.87 while the least was detected to be 'role in internal auditing.

#### 4.3.10 Analysis on Efficient operations in the Banks

**Table 4.3.10 Show the Analysis on Efficient operations in the Banks**

Details	Mean			Average
	Juaben	AtwimaKwanwoma	Nwabiagya	
The bank offers low rate of interest on loans	2.06	4.32	2.65	<b>3.01</b>
Understands my needs	3.31	2.53	2.44	<b>2.76</b>
Provides efficient service	2.39	3.36	2.87	<b>2.87</b>
Offers prompt cashing/shorter queue time	2.07	1.47	3.68	<b>2.41</b>
Wider range of services	2.96	3.56	1.79	<b>2.77</b>
Personalised service	3.35	3.64	1.46	<b>2.82</b>
Community minded/Socially responsible	3.93	2.44	2.68	<b>3.02</b>
<b>Average</b>	<b>2.87</b>	<b>3.05</b>	<b>2.51</b>	<b>2.81</b>

Sources: *Author's field work, August, 2015*

Table 4.3.10 assessed the efficiency of the operations of the selected banks through their respective audit committee practices from customers' view point. In assessing the general performance of the selected banks varying views were expressed by customers. Apart from AtwimaKwanwoma Rural Bank that scored 3.47 (69.40) in agreement to efficient operations due to sound audit committee practices, the other two, that is Juaben and Nwabiagya scored 2.87 (57.40%) and 2.51 (50.20%) respectively, had shown disagreements to the notion.

However, on the front of the various factors of the variable, it was observed that 'The bank offers low rate of interest on loans' (3.01) and 'Community minded/Socially responsible' (3.02) attained mean values above 3.00; while the rest such as 'Understands my needs' (2.76), 'Provides efficient service' (2.87), 'Offers prompt cashing/shorter queue time' (2.41), 'Wider range of services' (2.77), and

‘Personalised service’ (2.82) fell into the category disagreeing with the variables. This finding shows that the service delivery performance was in general sense by its customers not good and that there is more room for improvement across all the selected banks.

#### **4.4 Analysis on Main factors that enhance the effectiveness of audit practices in selected Rural Banks**

To find out the factors that enhance the effectiveness of audit committee practices in the selected rural banks, the question; what are the main factors that enhance the effectiveness of the audit committees’ practices in the rural banks was asked.

A critical look at the above stated research question indicates that the study seeks to ascertain how the effectiveness of the AC can be enhanced in the various banks by identifying certain main factors as proposed by the researcher.

Just as paragraph 4.3 was adopted to assesses its variables the 5 point Likert scale was again used for the range of measurements in the study with intention of knowing the length of agreement with a claim or disagreement with the claim on the main factors that enhance the effectiveness of the Audit Committee practices in Juaben, AtwimaKwanwoma and Nwabiagya rural banks. The weighted scaled assumed for the study is as shown below:

For a five point Likert Scale: 5 – Strongly agree, 4 – Agree, 3 – I am not sure , 2 – Disagree, 1 - Strongly disagree. The Mean measures the average response in a collective manner to each factor given by

$$\mu = \frac{1}{N} \sum_{i=1}^n xy_i$$

Where:

$x_i$  is the number of respondents agreeing to the factor?

$n$  is the total number of respondent for extent of agreement or disagreement

**Table 4.4.1 Analysis on Factors that enhance the effectiveness of audit practices**

<b>Factors</b>	<b>Customers</b>				<b>Staff</b>			
	<b>Mean</b>				<b>Mean</b>			
	<b>Juaben</b>	<b>AtwimaKwanwoma</b>	<b>Nwabiagya</b>	<b>Average</b>	<b>Juaben</b>	<b>AtwimaKwanwoma</b>	<b>Nwabiagya</b>	<b>Average</b>
Voluntary and self-regulation by the banks.	4.32	3.59	3.64	<b>3.85</b>	3.86	3.43	3.93	<b>3.74</b>
Increased monitoring of existing rules and guidelines.	3.95	4.68	4.88	<b>4.50</b>	3.85	4.11	4.01	<b>3.99</b>
Introducing some new rules and guidelines.	3.79	3.64	4.54	<b>3.99</b>	3.55	3.66	4.23	<b>3.81</b>
Compulsory inclusion of AC report in the Annual Corporate Report.	4.38	4.66	3.95	<b>4.33</b>	4.12	3.97	3.73	<b>3.94</b>
Mandating the appointment of AC chairperson from independent/external directors.	4.05	3.41	3.89	<b>3.78</b>	4.18	3.81	3.98	<b>3.99</b>
Mandating inclusion of majority independent /external members in the ACs.	4.18	3.48	4.48	<b>4.05</b>	3.98	3.57	3.64	<b>3.73</b>
Compulsory compliance of Bank of Ghana Law regarding the guidelines of AC practices.	3.62	3.97	4.75	<b>4.11</b>	3.62	3.65	3.38	<b>3.55</b>
<b>Average</b>	<b>4.04</b>	<b>3.92</b>	<b>4.30</b>	<b>4.09</b>	<b>3.88</b>	<b>3.74</b>	<b>3.84</b>	<b>3.82</b>

Sources: *Author's field work, August,*

$N$  is the total number of respondents involved in the response and

$y_i$  is the assigned weight to the level of agreement or disagreement

Consequently, for the analysis of the seven variables on the main factors that enhance the effectiveness of the Audit Committee practices in Juaben, AtwimaKwanwoma and Nwabiagya rural banks is shown in Tables 4.14 (all in respect of senior staff/board and customers' response).

As illustrated in Table 4.14, the study revealed a general agreement to the proposed factors for the enhancement of effective Audit Committee practices in the selected rural banks.

In all the assessments undertaken, customers were more enthusiastic about the factors as evidenced by average mean value of 4.09; albeit, the staff were oblivious to entire scheme as they also showed strong neutrality and weak affirmation by the mean value of (3.82). The customers believed that the factor on 'Increased monitoring of existing rules and guidelines' (4.50), 'Increased monitoring of existing rules and guidelines' (4.11) and 'Compulsory inclusion of AC report in the Annual Corporate Report' (4.33) should be strictly adhered to. The aforementioned factors were also considered by the staff.

Summarily, Juaben attained the highest average for both staff (3.88) and customers (4.04); followed closely by Nwabiagya recording 4.30 for customers and 3.84 for staff; Atwima Kwanoma registered the least with 3.92 for customers and 3.74 for staff.

## 4.5 Analysis on Contributions of Audit Committee to Good Corporate

### Governance

To find out the contributions of audit committee to good corporate governance in the selected rural banks, the question: what are the contribution of audit committees to good corporate governance was asked.

This section of the study adopts nine variables to assess the contribution of audit committee to good corporate governance by the customers of the three selected banks using the Likert 5 scale with the least being 1-Don't know, 2-Not as Good as Most, 3-Same as Most, 4-Better than Most and 5-The Best. On the part of staff, probing issues such as 'What AC looks for and what banks as a corporate entity expects during an audit' and the contribution of AC in the achievement of corporate goals, among others were looked at.

**Table 4.5.1: Contributions of Audit Committee to Good Corporate Governance**

Details	Mean			
	Juaben	AtwimaKwanwoma	Nwabiagya	Average
Bank has written corporate governance principle, which clearly indicates its values and responsibilities of senior management staff and the board of directors	4.76	3.09	4.51	4.12
Easy access to information on financial and operational performance	3.89	3.5	4.02	3.80
Bank has website for disclosure of information	3.98	4.41	4.2	4.20
Helping customers with their finances	3.77	3.98	4.3	4.02
Opportunity to complain	4.41	4.4	4.59	4.47
Ability to resolve complaints on schedule	4.87	4.88	4.52	4.76
Services are very efficient and reliable	4.83	4.78	4.19	4.60
Responding to changes in the market	4.01	4.08	4.77	4.29
Quality of customer service	4.34	3.74	4.04	4.04
<b>Average</b>	<b>4.32</b>	<b>4.10</b>	<b>4.35</b>	<b>4.25</b>

Sources: *Author's field work, August, 2015*

Table 4.5.1 shows that the variable in general terms scored 4.25 giving a strong indication that the contributions of audit committees are better than most practices in the industry and for that matter almost the best. With the exception of the factor ‘Easy access to information on financial and operational performance’ which scored 3.80 (representing ‘same as most’ and near to ‘better than most’) all the factors constituting the variable on contribution of Audit Committee to Good Corporate Governance scored mean values over 4.00. The near ‘best’ variable was ‘Ability to resolve complaints on schedule’ (4.76) and ‘Services are very efficient and reliable’ (4.60).

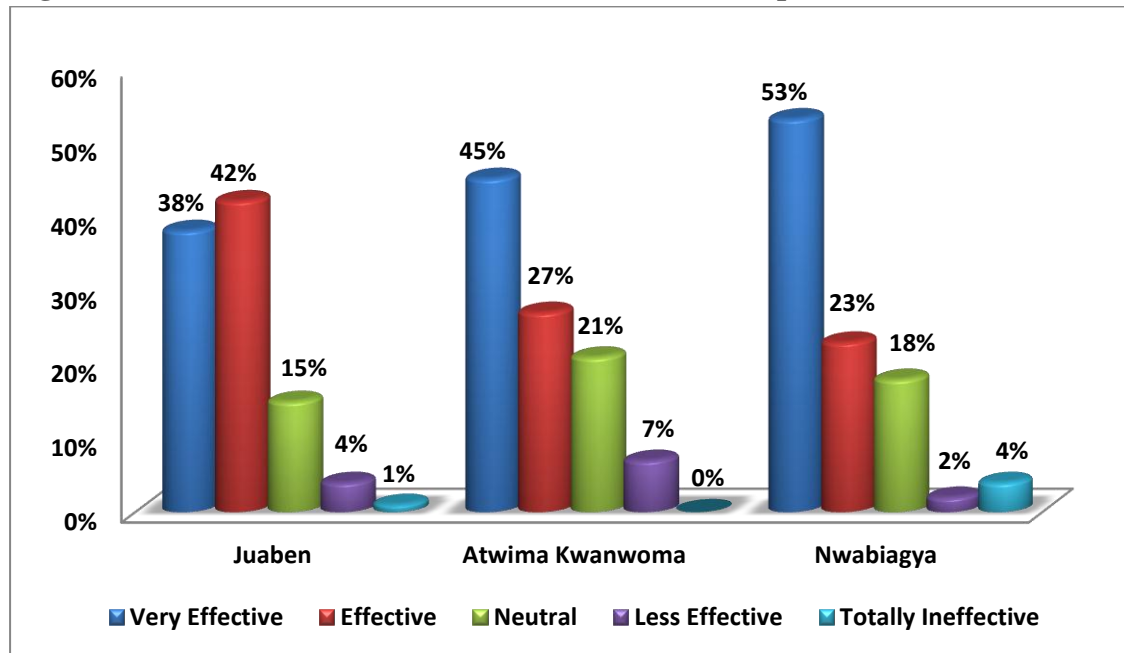
On the front of the individual banks, it was found out that Nwabiagya scored the highest mean a value of 4.35, followed closely by Juaben with 4.32 and the least being Atwima Kwanwoma with 4.10 mean. This finding reveals the trust and confidence respondents, particularly customers have in the audit committees of their respective institutions.

On the question that seeks to ascertain what an Audit Committee looks out for and expectation of the banks as corporate entities during an audit, the study observed that across board respondents mentioned strict compliance to policies, rules and regulations that governs the internal control system. It was stated that the audit committee does not go fishing for negativity, but rather ensures that all weaknesses are addressed.

It also came out that among the numerous contributions that the audit committee provides for the attainment of corporate goals; notable among them are that the audit committee monitors the tasks of both the internal and external auditors to ensure conformity and compliance to standards which results in maintenance of good corporate governance.



**Figure 4.2 contribution of Audit committee to Good Corporate Governance**



Sources: *Author's field work, August, 2015*

Figure 4.2 shows an overwhelming support by the staff that the Audit Committee work across all the three selected banks have been very effective as evidenced by Nwabiagya recording the highest (53%), AtwimaKwanwoma (45%) and Juaben that registered the lowest in that category (38%).

#### **4.6 Challenges of Audit Committee Practices**

To find out the challenges faced by audit committee in the selected rural banks, the question what are the challenges mitigating the efficient operation of audit committee was asked.

This section which sought to understand the challenges faced by the Audit Committees in their operations staff assessment were based on a five point Likert Scale: 5 – Strongly agree, 4 – Agree, 3 – Neutral, 2 – Disagree, 1 - Strongly disagree; wherein the Mean measures the average response in a collective manner to each of the nine factors for this particular variable. On the other hand customers' assessment was based mainly on descriptive and qualitative analysis.

**Table 4.6.1 Challenges of Audit Committee Practices**

Details	Mean			
	Juaben	AtwimaKwanwoma	Nwabiagya	Average
Lack of AC members' qualification in relevant field.	2.54	2.45	2.66	<b>2.55</b>
Lack of AC members experience and expertise in the relevant field.	4.15	3.96	4.11	<b>4.07</b>
Non-inclusion of majority independent/external members in the ACs.	3.44	2.94	2.56	<b>2.98</b>
Non-appointment of AC chairperson from external/independent members.	4.05	4.01	4.06	<b>4.04</b>
Low frequency of AC meetings.	3.04	3.44	2.45	<b>2.98</b>
Lack of diligence in AC members.	2.52	2.16	2.47	<b>2.38</b>
Inadequate authority delegated to the ACs.	3.04	2.44	2.43	<b>2.64</b>
Inadequate resources provided to the AC.	4.03	4.19	4.04	<b>4.09</b>
Lack of supports from top management.	2.65	2.58	3.02	<b>2.75</b>
<b>Average</b>	<b>3.27</b>	<b>3.13</b>	<b>3.09</b>	<b>3.16</b>

Sources: *Author's field work, August, 2015*

Table 4.6.1 showed that cumulative average mean for this variable was 3.16 representing some level of neutrality and slight skewing towards agreeing with the variable. Severally, Juaben scored 3.27, 3.13 for AtwimaKwanwoma and 3.09 for Nwabiagya rural bank.

It is also worth noting that 'Inadequate resources provided to the AC' (4.09), 'Lack of AC members experience and expertise in the relevant field' (4.07) and 'Non-appointment of AC chairperson from external/independent members' (4.04) were the main challenges facing the selected three rural banks in aggregate terms. It was observed the customers shy away from this question, leaving it unanswered.

## **CHAPTER FIVE**

### **SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATION**

This chapter presents the summary of major findings, conclusions and recommendations of the study.

#### **5.1 Summary of Major Finding**

Base on the analysis in chapter four the following are the major findings.

On the prevailing audit committee practices in the bank the study revealed that concerning the Composition of audit committees, members are appointed in consultation with the chairperson; and the members have sufficient knowledge on the entity's business, Accounting and/or Auditing practices and have attained sufficient experience in Accounting and/or Auditing. Apart from the aforementioned qualifications, they are expected to be independent/non-executive directors. The size of the committee is also worth considering for carrying out its duties properly. On issues pertaining to Authority and Resources the committees of the banks are well resources, particularly in the area of accessibility to relevant information required. The members of the committees took diligence very serious as noticed in their devotion of time to tasks assigned since they have a clear understanding of their responsibilities especially with a charter which outlines its objectives, duties and responsibilities'.

At meetings the study showed that the chairpersons cooperate with other committee members before finalizing the agenda of the meetings. The agenda and related materials are provided to members fairly ahead of the meetings and all members can express their views freely and independently in the meetings. The duration of the

meetings is sufficient for a full discussion of important issues and minutes of the meetings are circulated to all members of the Board of Directors (BODs).

Under the role of Audit Committees in Financial Reporting committees review the compliance of the Accounting Standards in preparing financial statements even to extent of reviewing the integrity of the banks' financial statements. The study revealed that the Audit Committees reviews accounting estimates and judgments done in preparing financial statements and review of compliance of the Accounting Standards in preparing financial statements are highly considered.

Under the role of Audit Committee in external auditing, the study revealed that the audit committee in all the three banks do not monitor the external audit firm's compliance with existing ethical and regulatory requirements in Ghana.

This is evidenced by the low average means score of (2.88). Also on audit committee reviewing and monitoring management's responsiveness to the internal auditor's findings and recommendation and Audit committee monitoring and evaluating the effectiveness of the internal audit function under the audit committee role in internal auditing, all three selected rural banks failed in that role. This is evidenced by the low average means score of (2.72) and (2.74) respectively.

On the main factors that enhance the effectiveness of audit practices the study showed that increased monitoring of existing rules and guidelines', 'increased monitoring of existing rules and guidelines' and 'Compulsory inclusion of AC report in the Annual Corporate Report' should be strictly adhered to.

On the contribution of audit committee to good corporate governance it came out that the committees' ability to resolve complaints on schedule and services are very efficient and reliable revealing trust and confidence respondents, particularly customers have in audit committees. The study observed that across board respondents mentioned strict compliance to policies, rules and regulations that governs the internal control system. It was stated that the audit committee does not go fishing for negativity, but rather ensures that all weaknesses are addressed.

On challenges of audit committee practices it came out that the banks are faced with inadequate resources and little or no monitoring of external and internal auditing adherence to standards. In certain instances it was discovered that some Committee members lack experience and expertise in the relevant field and 'non-appointment of Audit Committees chairperson from external/independent members' were the main challenges facing the selected three rural banks.

## **5.2 Conclusion**

It was discovered that all the selected banks favoured the composition of their respective audit committees and they have adequate authority and resources to function. The Audit Committees practice all the requisite appropriate ground rules before, during and after meeting. Hence, meetings are conducted in ambience appropriate for effective discussion.

The monitoring role of the committee to the external audit firm's compliance with the existing ethical and regulatory requirements in Ghana' are not effective as required. The role of AC in recommending and approving the appointment or termination of the heads of the internal audit division has been less effective although it reviews the

annual internal audit reports, budget and other findings of internal audit. They have exhibited diligence and effective in ensuring the financial reporting strictly adheres to standards. The service delivery performance has not been good and that there is more room for improvement across all the selected banks.

### **5.3 Recommendations**

Base on the findings and discussions in chapter four the following recommendations have been made

Generally, it was detected that all banks are doing well with prevailing audit committees practices. Therefore it is recommended that the committees should not release its foot on the paddle but maintain and even do well to improve on their practices to meet international standards.

It is recommended that adequate resources be provided to the committees to facilitate their efficient delivery of service.

It is recommended that the committees up their game in playing their role of effective monitoring of both the external and the internal auditors. The role of AC monitoring of the external audit firms in terms compliance with the existing ethical and regulatory requirements in Ghana needs improvement. The role of monitoring and evaluating the effectiveness of the internal audit function and managers reaction to the internal auditor's findings and recommendations by the committee should strengthened especially, Atwima and Nwabiagya rural banks.

It also recommended that audit committee chair persons should be chosen from outside or autonomous non- executive members to remove any influence in their work.

It is also recommended that audit committee members should always be people who have needed experience, relevant expertise and knowledge in the relevant field to facilitate the better supply of services.

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## APPENDIX 1

### QUESTIONNAIRE – STAFF & BOARD MEMBERS

**Dear Sir/Madam**

You have been selected to respond to this questionnaire with respect to the study of “ASSESSING THE ROLE AND EFFECTIVENESS OF AUDIT COMMITTEES IN SOME SELECTED RURAL BANKS IN GHANA”. You are assured that any information you provide is solely meant for the research and nothing else. Your response to the questions will be kept confidential. Thank You.

#### ***Section A: Bio-Data***

***Please complete this section by ticking the applicable box***

1. Gender:     Male ☐                      Female ☐
2. Education Level: Tertiary ☐   Diploma ☐   Secondary/Technical ☐   Professional ☐   Basic ☐
3. Number of years with the company: Less than 5years ☐   Between 6 – 10 years ☐   Above 10 years ☐
4. Indicate your current position held at the bank: Board Member ☐   Senior level ☐
5. Please provide the name of your bank \_\_\_\_\_

#### ***Section B: Responses about Prevailing Audit Committee Practices in the Bank***

**Research Question 1: What is the current state of the Audit Committee practices and its role in the selected rural banks?**

***Instructions:*** The following set of statements deal with your perception towards some issues that relate to the **Existing Practice (NOT the Ideal Practice)** of audit committees (ACs) in your bank. Please indicate the extent to which you agree or disagree with each of the following statements by circling only one number, where; 1= Strongly Disagree, 2= Disagree, 3= Neutral, 4= Agree, and 5= Strongly Agree. For example, if you strongly agree with any particular statement, please put a circle around 5.

Statements	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
<b>A. Composition</b>					
1. The AC members are appointed in consultation with the AC chairperson.	1	2	3	4	5

2. The AC members have sufficient knowledge on the entity's business.	1	2	3	4	5
3. The AC members have sufficient knowledge on Accounting and/or Auditing practices.	1	2	3	4	5
4. The AC members have sufficient experience in Accounting and/or Auditing.	1	2	3	4	5
5. The majority of AC members are independent /non-executive directors.	1	2	3	4	5
6. The size of the AC is appropriate for carrying out its duties properly.	1	2	3	4	5
<b>B. Authority and Resources</b>					
1. The AC has adequate authority in order to carry out its responsibilities.	1	2	3	4	5
2. The AC has ready access to relevant information if required.	1	2	3	4	5
3. The AC receives prompt responses from the management in carrying out its duties.	1	2	3	4	5
4. The AC is provided with sufficient resources including secretarial support to carry out its duties.	1	2	3	4	5
5. The non-executive AC members are adequately paid for their time and efforts.	1	2	3	4	5
<b>C. Diligence</b>					
1. The AC has a charter which outlines its objectives, duties and responsibilities.	1	2	3	4	5
2. The AC charter is reviewed annually.	1	2	3	4	5
3. The AC members have a clear understanding of their responsibilities.	1	2	3	4	5
4. Members of the AC readily assume their responsibilities.	1	2	3	4	5
5. The AC members devote sufficient time to the committee's affairs.	1	2	3	4	5
<b>D. Meeting</b>					

1. The chairperson cooperates with other committee members before finalizing the agenda of the meetings.	1	2	3	4	5
2. The agenda and related materials are provided to members fairly ahead of the meetings.	1	2	3	4	5
3. All members can express their views freely and independently in the meetings.	1	2	3	4	5
4. The duration of the AC meetings is sufficient for a full discussion of important issues.	1	2	3	4	5
5. The minutes of the AC meetings are circulated to all members of the Board of Directors (BODs).	1	2	3	4	5
<b>E. Role in Financial Reporting</b>					
1. The AC reviews the integrity of the banks' financial statements.	1	2	3	4	5
2. The AC reviews accounting policies and any changes made therein.	1	2	3	4	5
3. The AC reviews accounting estimates and judgments done in preparing financial statements.	1	2	3	4	5
4. The AC reviews the compliance of the Accounting Standards in preparing financial statements.	1	2	3	4	5
5. The AC reviews the clarity and completeness of disclosures in financial statements.	1	2	3	4	5
<b>F. Role in External Auditing</b>					
1. External auditors are appointed and/or removed upon the recommendation of the AC.	1	2	3	4	5
2. The AC monitors the external audit firm's compliance with the existing ethical and regulatory requirements in Ghana.	1	2	3	4	5



3. The AC reviews the findings of the annual audit obtained by the external auditors.	1	2	3	4	5
4. The AC reviews the management's responsiveness to the external auditors' findings.	1	2	3	4	5
5. The AC reviews and monitors the independence and effectiveness of the external auditing process.	1	2	3	4	5
<b>G. Role in Internal Auditing</b>					
1. The AC recommends and approves the appointment or termination of the heads of the internal audit division.	1	2	3	4	5
2. The AC reviews the annual internal audit reports, budget and other findings.	1	2	3	4	5
3. The AC reviews and monitors the management's responsiveness to the internal auditor's findings and recommendations.	1	2	3	4	5
4. The AC enhances the independence of the internal auditors of the bank.	1	2	3	4	5
5. The AC monitors and evaluates the effectiveness of the internal audit function.	1	2	3	4	5
<b>H. Overall Practice</b>					
1. The AC can work independently.	1	2	3	4	5
2. The AC is effective.	1	2	3	4	5

**Research Question 2: What are the main factors that enhance the effectiveness of the Audit Committee practices in the rural banks selected?**

**Instructions:** The following issues deal with your perception about how AC effectiveness can be enhanced in your bank.

Possible Factors	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
1. Voluntary and self-regulation by the banks.	1	2	3	4	5
2. Increased monitoring of existing rules and guidelines.	1	2	3	4	5
3. Introducing some new rules	1	2	3	4	5

and guidelines.					
4. Compulsory inclusion of AC report in the Annual Corporate Report.	1	2	3	4	5
5. Mandating the appointment of AC chairperson from independent/external directors.	1	2	3	4	5
6. Mandating inclusion of majority independent /external members in the ACs.	1	2	3	4	5
7. Compulsory compliance of Bank of Ghana Law regarding the guidelines of AC practices.	1	2	3	4	5

**Research Question 3: What are the contributions of audit committee to good corporate governance?**

1. What does the AC looks for and what do the bank as a corporate entity expects during an audit? Does AC only look for negative things?

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2. What is the contribution of AC in the achievement of corporate goals

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3. At what extent has the AC impacted on good corporate governance?

Very effective ☐ Effective ☐ Neutral ☐ Less Effective ☐ Totally Ineffective ☐

Please explain your answer

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**Section D: Challenges affecting Audit Committee Practices**

**Research Question 4: What are the challenges mitigating the efficient operations of the audit committees in the bank and their influence on both internal and external audit?**

**Instructions:** The following statements deal with your perception towards some challenges that affect the existing practice of audit committees (ACs) in the bank.

<b>Factors</b>	<b>Strongly Disagree</b>	<b>Disagree</b>	<b>Neutral</b>	<b>Agree</b>	<b>Strongly Agree</b>
1. Lack of AC members qualification in relevant field.	1	2	3	4	5
2. Lack of AC members experience and expertise in the relevant field.	1	2	3	4	5
3. Non-inclusion of majority independent/external members in the ACs.	1	2	3	4	5
4. Non-appointment of AC chairperson from external/independent members.	1	2	3	4	5
5. Low frequency of AC meetings.	1	2	3	4	5
6. Lack of diligence in AC members.	1	2	3	4	5
7. Inadequate authority delegated to the ACs.	1	2	3	4	5
8. Inadequate resources provided to the AC.	1	2	3	4	5
9. Lack of supports from top management.	1	2	3	4	5

Suggest recommendation for the improvement of good corporate governance through internal auditing?

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**THANK YOU VERY MUCH FOR YOUR TIME.**

## APPENDIX 2

### QUESTIONNAIRE – CUSTOMERS

**Dear Sir/Madam**

You have been selected to respond to this questionnaire with respect to the study of “ASSESSING THE ROLE AND EFFECTIVENESS OF AUDIT COMMITTEES IN SOME SELECTED RURAL BANKS IN GHANA”. You are assured that any information you provide is solely meant for the research and nothing else. Your response to the questions will be kept confidential. Thank You.

#### ***Section A: Bio-Data***

***Please complete this section by ticking the applicable box***

1. Gender:      Male ☐                      Female ☐
2. Education Level: Tertiary ☐   Diploma ☐   Secondary/Technical ☐   Professional ☐   Basic ☐   Non ☐
3. Number of years with the company: Less than 5years ☐   Between 6 – 10 years ☐   Above 10 years ☐
4. Please provide the name of your bank\_\_\_\_\_
5. Which of the following best describe the type of account held with the bank?  
       Current Account ☐   Savings Account ☐   Foreign Account ☐   SME Account ☐  
       Others specify\_\_\_\_\_
6. Which of the following best describe your occupation?  
       Self-employed ☐   Professional ☐   Student ☐   Others  
       Specify\_\_\_\_\_

#### ***Section B: Responses about efficient operations in the Bank***

***Instructions:*** The following set of statements deal with your perception towards some issues that relate to the **Existing Practice (NOT the Ideal Practice)** of audit committees (ACs) in your bank. Please indicate the extent to which you agree or disagree with each of the following statements by circling only one number, where; 1= Strongly Disagree, 2= Disagree, 3= Neutral, 4= Agree, and 5= Strongly Agree. For example, if you strongly agree with any particular statement, please put a circle around 5.

Details	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
1. The bank offers low rate of interest on loans					
2. Understands my needs					

3. Provides efficient service					
4. Offers prompt cashing/shorter queue time					
5. Wider range of services					
6. Personalised service					
7. Community minded/Socially responsible					

**Section C: Main factors that enhance the effectiveness of audit practices in the rural banks selected?**

**Instructions:** The following issues deal with your perception about how effective audit practices can be enhanced in your bank.

Possible Factors	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
1. Voluntary and self-regulation by the banks.	1	2	3	4	5
2. Increased monitoring of existing rules and guidelines.	1	2	3	4	5
3. Introducing some new rules and guidelines.	1	2	3	4	5
4. Compulsory inclusion of audit report in the Annual Corporate Report.	1	2	3	4	5
5. Mandating inclusion of majority independent /external members in the ACs.	1	2	3	4	5
6. Compulsory compliance of Bank of Ghana Law regarding the guidelines of AC practices.	1	2	3	4	5

**Section D: Contributions of auditing to good corporate governance?**

Details	The Best (5)	Better than Most (4)	Same as Most (3)	Not as Good as Most (2)	Don't Know (1)
1. Bank has written corporate governance principle, which clearly indicates its values and responsibilities of senior management staff and the board					

of directors					
2. Easy access to information on financial and operational performance					
3. Bank has website for disclosure of information					
4. Helping customers with their finances					
5. Opportunity to complain					
6. Ability to resolve complaints on schedule					
7. Services are very efficient and reliable					
8. Responding to changes in the market					
9. Quality of customer service					

***Section E: Challenges affecting Audit Practices***

1. What are the challenges that bank encounters in its quest to ensure good corporate governance through internal auditing?

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2. Suggest recommendation for the improvement of good corporate governance through internal auditing?

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**THANK YOU VERY MUCH FOR YOUR TIME**

### APPENDIX 3

<u>Ashanti Region</u>	<u>Location</u>
1 Atwima Rural Bank Ltd	Foase
2 Sekyedomase Rural Bank Ltd	Sekyedomase
3 Adansi Rural Bank Ltd	Fomena
4 Asokore Rural Bank Ltd	Asokore
5 Kwamaman Rural Bank Ltd	Kwaman
6 Asante Akyem Rural Bank Ltd	Juansa
7 Kumawuman Rural Bank Ltd	Kumawu
8 Akrofuom Area Rural Bank Ltd	Akrofuom
9 Ahafo Ano Premier Rural Bank Ltd	Wiaoso
10 Bosomtwe Rural Bank Ltd	Kuntanase
11 Okomfo Anokye Rural Bank Ltd	Wiamoase
12 Odotobiri Rural Bank Ltd	Jacabu
13 Atwima Kwanwoma Rural Bank Ltd	Pakyi No. 2
14 Sekyere Rural Bank Ltd	Jamasi
15 Amanano Rural Bank Ltd	Nyinahin
16 Amansie West Rural Bank Ltd	Antoakrom
17 Juaben Rural Bank Ltd	Juaben
18 Atwima Mponua Rural Bank Ltd	Toase
19 Nwabiagya Rural Bank Ltd	Barrekese
20 Otuasekan Rural Bank Ltd	Kofiase
21 Nsutaman Rural Bank Ltd	Nsuta
22 Offinso Rural Bank	Offinso
23 Ejuraman Rural Bank	Ejura
24 Bosome-Freho Rural Bank	Nsuaem No. 2

25	Yaa Asantewaa Rural Bank	Ejisu
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<b><u>Central Region</u></b>		<b><u>Location</u></b>
1	Nyakrom Rural Bank Ltd	Agona Nyakrom
2	Mfantseman Community Bank Ltd	Biriwa
3	Enyan Denkyira Rural Bank Ltd	Enyan Denkyira
4	Gomoa Rural Bank Ltd	Apam
5	Kakum Rural Bank Ltd	Elmina
6	Nyankumase Ahenkro Rural Bank Ltd	Fante-Nyankumase
7	Union Rural Bank Ltd	Senya Bereku
8	Assinman Rural Bank Ltd	Assin Manso
9	Brakwa Breman Rural Bank Ltd	Brakwa
10	Ayanfuri Rural Bank Ltd	Ayanfuri
11	Eastern Gomoa Assin Rural Bank Ltd	Gomoa-Dominase
12	Akatskyiman Rural Bank Ltd	Komenda
13	Ekumfiman Rural Bank Ltd	Essuehyia
14	Gomoa Ajumako Rural Bank Ltd	Afransi
15	Agona Rural Bank Ltd	Kwannyaku
16	Akyempim Rural Bank Ltd	Gomoa-Dawuranpong
17	Akoti Rural Bank Ltd	Assin-Akropong
18	Twifu Rural Bank Ltd	Twifo-Agona
19	Awutu Emasa Rural Bank Ltd	Awutu Bereku
20	Awutu Bawjiase Rural Bank Ltd	Bawjiase
21	Odupon Kpehe Rural Bank Ltd	Kasoa



<b><u>Eastern Region</u></b>	<b><u>Location</u></b>
1 Asuopra Rural Bank Ltd	Afosu
2 Manya Krobo Rural Bank Ltd	Odumase-Krobo
3 Akwapim Rural Bank Ltd	Mamfe
4 Kwahu Rural Bank Ltd	Pepease
5 Anum Rural Bank Ltd	Anum
6 South Birim Rural Bank Ltd	Achiase
7 Upper Manya Kro Rural Bank Ltd	Asesewa
8 Kwahu Praso Rural Bank Ltd	Kwahu Praso
9 Atiwa Rural Bank Ltd	Kwabeng
10 Mumuadu Rural Bank Ltd	Osino
11 Afram Rural Bank Ltd	Tease
12 Mponua Rural Bank Ltd	Amuana Praso
13 Akim Bosome Rural Bank Ltd	Akim Swedru
14 Kwaebibirim Rural Bank Ltd	Asuom
15 Akyem Mansa Rural Bank Ltd	Ayirebi
16 South Akim Rural Bank Ltd	Nankese
17 Odwen-Anoma Rural Bank Ltd	Hweehwee
18 Dumpong Rural Bank Ltd	Asakraka
19 Adonten Community Bank Ltd	New Tafo
20 Asuogyaman Rural Bank	Akosombo
21 Citizens Rural Bank Ltd	Nsawam
22 Fanteakwa Rural Bank	Begoro

	<b><u>Brong Ahafo Region</u></b>	<b><u>Location</u></b>
1	Kintampo Rural Bank Ltd	Kintampo
2	Wamfie Rural Bank Ltd	Wamfie
3	Suma Rural Bank Ltd	Suma Ahenkro
4	Baduman Rural Bank Ltd	Badu
5	Asutifi Rural Bank Ltd	Acherensua
6	Nkoranza Kwabre Rural Bank Ltd	Akuma
7	Fiagya Rural Bank Ltd	Busunya
8	Bomaa Rural Bank Ltd	Bomaa
9	Nsoatreman Rural Bank Ltd	Nsoatre
10	Derma Area Rural Bank Ltd	Derma
11	Yapra Rural Bank Ltd	Prang
12	Nkoranman Rural Bank Ltd	Seikwa
13	Amantin & Kasei Rural Bank Ltd	Amantin
14	Ahafo Community Bank Ltd	Kukuom
15	Drobo Community Bank Ltd	New Drobo
16	Nafana Rural Bank Ltd	Sampa
17	Capital Rural Bank Ltd	Abesim
18	Atweaban Rural Bank	Duayaw Nkwanta
19	Nkrankwanta Rural Bank	Nkrankwanta
20	Wenchi Rural Bank	Wenchi

	<b><u>Western Region</u></b>	<b><u>Location</u></b>
1	Esiama Rural Bank Ltd	Esiama
2	Amenfiman Rural Bank Ltd	Wassa-Akropong
3	Nzema Manle Rural Bank Ltd	Awiebo

4	Jomoro Rural Bank Ltd	Tikobo No.1
5	Asawinso Rural Bank Ltd	Sefwi-Asawinso
6	Lower Pra Rural Bank Ltd	Shama
7	Fiaseman Rural Bank Ltd	Bogoso
8	Lower Amenfi Rural Bank Ltd	Manso Amenfi
9	Ahantaman Rural Bank Ltd	Agona-Nkwanta
10	Upper Amenfi Rural Bank Ltd	Ankwanso
11	Kaaseman Rural Bank Ltd	Kaase
12	Bia Torya Rural Bank Ltd.	Bonsu Nkwanta
13	Western Rural Bank Ltd	Sekondi
14	Sefwiman Rural Bank Ltd	Bibiani

<b><u>Volta Region</u></b>	<b><u>Location</u></b>
1 North Tongu Rural Bank Ltd	Adidome
2 Asubonteng Rural Bank Ltd	Worawora
3 Avenor Rural Bank Ltd	Akatsi
4 Unity Rural Bank Ltd	Ziope
5 North Volta Rural Bank Ltd	Guaman
6 Weto Rural Bank Ltd	Kpeve
7 Agave Rural Bank Ltd	Dabala
8 Mepe Area Rural Bank Ltd	Mepe
9 Anlo Rural Bank Ltd	Anloga
10 Butawu Rural Bank Ltd	Tsito
11 Gbi Rural Bank Ltd	Hohoe
12 Kpassa Rural Bank	Kpassa

	<b><u>Greater Accra Region</u></b>	<b><u>Location</u></b>
1	Shai Rural Bank Ltd	Dodowa
2	Ada Rural Bank Ltd	Kasseh
3	Dangbe Rural Bank Ltd	Prampram
4	Ga Rural Bank Ltd	Amasaman
5	Abokobi Rural Bank Ltd	Abokobi
6	La Community Bank Ltd	Labadi
7	Oyibi Area Rural Bank	Oyibi

	<b><u>Upper East Region</u></b>	<b><u>Location</u></b>
1	Bessfa Rural Bank Ltd	Garu
2	Naara Rural Bank Ltd	Paga
3	Builsa Community Bank Ltd	Sandema
4	Toende Rural Bank Ltd.	Zebilla
5	Bongo Rural Bank	Bongo

	<b><u>Upper West Region</u></b>	<b><u>Location</u></b>
1	Nandom Rural Bank Ltd	Nandom
2	Sonzele Rural Bank Ltd	Jirapa
3	Sissala Rural Bank Ltd	Tumu
4	Lawra Area Rural Bank Ltd	Lawra

	<b><u>Northern Region</u></b>	<b><u>Location</u></b>
1	Bonzali Rural Bank Ltd	Kumbugu
2	Bangmarigu Community Bank Ltd	Walewale
3	East Mamprusi Rural Bank Ltd	Gambaga

4	Borimanga Rural Bank Ltd.	Savelugu
5	Buwulonso One Stop RB Ltd	Damongo
6	Tizaa Rural Bank Ltd	Gushegu
7	Zabzugu Rural Bank	Zabzugu