KWAME NKRUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY

COLLEGE OF HUMANITIES AND SOCIAL SCIENCES

DEPARTMENT OF ACCOUNTING AND FINANCE

AUDIT COMMITTEE EFFECTIVENESS, AUDITOR TYPE AND EARNINGS MANAGEMENT IN GHANA

BY

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DECLARATION

I hereby declare that this submission is my own work towards the award of the Master of Business Administration, Accounting and that, to the best of my knowledge, it contains no material previously published or written by another person or any material which has been accepted for the award of any other degree of the University, except where due acknowledgement has been made in the text.

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DEDICATION

The research work is dedicated to Almighty God for His protection of my study of Master of Business Administration, Accounting at Kwame Nkrumah University of Science and Technology. May His name be forever praised. Also, to my parents, Mr. and Mrs. Frimpong, I owe them a lot through my education to this level, God bless them. Unfortunately, my lovely mum couldn't live up to witness the successful story and enjoy the fruit of her labor. May her soul rest in perfect peace. Amen.

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ABSTRACT

This study aims at investigating the relationship between audit committee effectiveness, auditor type, and earnings management in the context of Ghanaian firms covering the years 2012 to 2021. Motivated by the imperative to enhance corporate governance practices and financial reporting integrity in emerging markets, our research employs panel regression analysis to analyze a carefully selected sample of firms. The primary goals are to ascertain whether an effective audit committee influences the occurrence of earnings management, assess its impact on auditor type, and explore its influence on the connection between auditor type and earnings management. The study's results reveal that the relationships between audit committee effectiveness and earnings management are not significant. But the relationship between audit committee size and earnings management showed a positive and significant relationship. Moreover, the moderating effects of audit committee characteristics on auditor type and earnings management relationship were also negative and significant , suggesting an alignment with the expectation that a strong audit committee can act as a mitigating factor in the management of earnings, serving as a check and balance to potentially unfavorable actions associated with specific auditor types. The study encourages organizational flexibility in tailoring audit committee structures to individual circumstances, which can enhance their ability to ensure financial reporting integrity and mitigate earnings management risks effectively.

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CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

The prevalence and reoccurrences of several avoidable financial crises and business failures across the globe continues to be tackled proportionately by policy makers and business management through reforms, financial policy restructuring, and institutional enforcement (Nurmalita and Asmara, 2022). For instance, The Bank of Ghana (BOG) in 2017 revoked the operating licenses of five indigenous Ghanaian banks as part of measures taken to avoid astute banking crises (BOG, 2017). Auditors were cited of compromising on their cherished integrity in any of those events which promoted earnings management practices (BOG, 2017). This reflects the prevalence of ineffectiveness of audit functions, poor corporate leadership culture and compliance of standard accounting practice as a tool to quality auditing and corporate governance (Afenya et al., 2022; Li Zhang et al., 2022; Al-Hajaya, 2019)

Audit committee effectiveness are factors that make audit committee resource task efficiency oriented. Effective audit committee has qualified members to ensure shareholders protection against management misappropriation through falsified financial reports (Al-ahdal and Hashim, 2022). Effective audit committee is a taxonomy of individual audit committee member's characteristics - financial expertise and independence (Agyemang, (2020), optimal mix of audit committee members (Li Zhang et al. 2022), and how each member of the committee works together to achieve quality audit function (Gorshunov et al. 2020). Effective audit committee promotes quality audit (Al-Hajaya, 2019; Agyei-Mensah, 2019; Nurmalita and Asmara, 2022).

Audit quality are process of ensuring that financial statements ae free from errors, fraud or mistakes. Audit quality outcome highlights that external auditors have certified audit reports, and or deficiencies identified are communicated through audit report (Gorshunov et al. 2020). Audit quality is important to stakeholders. Quality audit reports convey positive information about the business to investors (Alderman and Jollineau, 2020). Audit committee effective enhances audit quality through efficient internal audit oversight. Maintaining quality audit enhances audit assurance which is important for firm value (Nurmalita and Asmara, 2022). The efficient delivery of quality audit service describes the competence and credibility of the audit firm. Quality audit is linked to performance, eliminates information asymmetry and improves transparency (Ugwu *et al.*, 2020; Miettinen 2019, Dangana, 2019; Al-ahdal and Hashim, 2022).

Audit committee enhance the financial reporting process by ensuring comprehensive and detailed information contained in the financial statement to inform investment decision. Audit committee effectiveness indicates robust oversight role by the committee on management and it should mitigate earnings management (Almarayeh et al., 2022; Aljadba et al., 2022; Cheung, and Adelopo, 2022). Agency theory recognizes the potential conflict of interest between managers and owners of a company (Jensen and Meckling, 1976). The conflict arises partly to information asymmetry problem. Management has more information especially on earnings than investors. Management has higher incentives to capitalize on the information at the expense of investors. Quality audit is important to reducing information asymmetry and moral hazards and maintain financial reports integrity Almuzaiqer, et al., 2022; Hoang, et al., 2022; Androjuniko et al., 2022).

Studies on audit quality and earnings management remain an important subject for policy makers, investors, regulators, consumers. The quality of a company's earnings reporting influences investors' confidence in financial and accounting information and helps in the allocation of reserves in the financial market (Kalbuana et al., 2022). Earnings of a company are susceptible to management manipulation to present a mirage performance outlook, and quality auditing and audit committee effectiveness can mitigate that (Makhlouf et al., 2022). The stability of the financial markets and well as informed investment decision is dependent on the quality of available accounting information about businesses (Kurniawan and Antonio, 2022). As such, the need to ensure quality audit processes.

This study highlights that audit quality must assume authority, independence and diligence which are important feature of audit quality. Audit quality remains crucial research are due to increase concerns on quality corporate governance and financial reporting. This study uses variables reported in literature as significant factors of AC effectiveness such as AC independence, AC gender, and AC size. The research highlights the important of AC oversight role. The study contributes to policy by providing important examples of efforts to improve audit committee and audit quality to helps businesses to identify and control various dimensions of audit committee effectiveness to strengthen oversight of financial report, risk management, quality corporate governance, and audit quality.

1.2 Statement of the Problem

Empirical studies show that characteristics of audit effectiveness such as audit committee gender diversity, competence, expertise, meetings influence audit quality (Afenya et al., 2022; Mawutor et al. 2019; Al-Hajaya, 2019; Goettel, 2021; Kalbuana et al., 2022; Makhlouf et al., 2022). Moreover, studies demonstrate that AC effectiveness and auditor choice decrease information asymmetry, improve corporate governance and reduce agency cost and risk (see, e.g., Agyei-Mensah, 2018, Agyemang, 2020; Awinbugri and Gyimah, 2021; Isidoro et al., 2021; Androjuniko et al., 2022). Exhaustive evidence in literature point that AC effectiveness and auditor type reduces agency cot and conflict, improve corporate governance, mitigates risk, increase firm performance (e.g., Al-Hajaya, 2019; Goettel, 2021; Kalbuana et al., 2022), however, the role of audit committee effectiveness in the relationship between auditor type and earnings management is significantly ignored in literature, particularly for emerging countries such as Ghana.

This study argues that AC effectiveness influence decision to use high brand and large auditors (Big 4). Studies report that characteristics such as AC gender, independence, size, experience influence auditor type (e.g., Mattayaphutron and Mahamat, 2021; Arslan et al., 2014; Azhari et al., 2020; Li Zhang et al. 2022; Gilbert and Zalik, 2019; Sitanggang et al., 2022; Jayeola et al., 2022; Aljadb et al., 2022). Based on these findings, this study implies that AC effectiveness will strengthen the negative effect of audit quality on earnings management. Thus, the study modulates AC effectiveness on auditor type and earnings management in Ghana.

1.3 Research Objective

The general objective of the study is to investigate the effect of audit committee effectiveness and auditor type on earnings management. Specifically, the study seeks;

1. To examine the relationship between audit committee effectiveness and the occurrence of earnings management.

2. To investigate the effect of auditor type and earnings management.

3. To investigate the combined effect of audit committee effectiveness and auditor type on earnings management.

1.4 Research Questions

Accordingly, the study answers the following questions.

1. Does audit committee effectiveness (in terms of size, gender diversity, diligence and independence) influence the occurrence of earnings management?
2. Does auditor type (in terms Big4 auditing firm) mitigates the occurrence of earnings management?
3. Does audit committee effectiveness strengthen the influence of auditor type and internal control on earnings management?

1.5 Significance of the Study

The study contributes to corporate overnice mechanism in firm, literature and policy. First, this study modulates AC characteristics as important AC features that can increase the negative effect of auditor type on earnings management. Thus, it contributes to improving criteria for AC members to stimulate auditor type to reduce earnings management.

Second, the modulating role of AC features enhances results on AC and auditor type and earnings management. The findings would provide empirical evidence on the effectiveness of auditing as quality corporate governance mechanism in Ghana. The results of the study would enable governments and owners to consider audit committee as an economic agent within firms, which is tasked with financial oversight responsibility to ensuring credible accounting and financial reports. Further, the findings would offer an insight to governments and managements of firms to implement, enforce and monitor transparent and independent audit of firms.

1.6 Scope of the Study

The study is conducted in Ghana from 2007 to 2020 with panel secondary data of firms in Ghana. The study is limited to selected AC characteristics. This includes AC independence, AC size, and AC gender diversity.

1.7 Summary Methodology

The study uses descriptive approach as a research type and adopts a quantitative approach. The study population is all listed firms from Ghana Stock Exchange (GSE) and firms from club 100 in Ghana from 2007 to 2020. Firms with data on the study constructs will be selected ad cleaned. Data on the variables are collected from annual reports of selected companies' website. Panel regression and direct logistics estimators are used

1.8 Organization of the Study

The study has five chapters as follows; chapter one introduces to study; chapter two reviews literature; chapter three discusses methodology; chapter four presents results and discussion, and chapter five summarizes findings, conclusion and provides some recommendations.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter reviews related literature. It has four (4) sections. Section 2.1 presents conceptual review and reviews constructs such as auditor type, audit committee effectiveness and earnings management. Sections 2.2 reviews agency theory. Section 2.3 presents empirical reviews on the topic, and section 2.4 presents conceptual framework

2.1 Conceptual Review

2.1.1 Auditor Type

Audit quality has several definitions. The frequently used definition was given by DeAngelo (1981). DeAngelo (1981) defines audit quality as the probability that external auditor has the resource to identify errors, fraud or mistake and financial reports; and discloses the discrepancies in the audit reports. The definition has two feature which are; (i) resource (auditors' expertise, knowledge, authority, diligence) to identify discrepancies in financial reports, and (ii) auditors' objectivity (which describes the independence of auditors, to corrects discrepancies through adjustments, or report the discrepancies in audited reports. The features are important to ensure auditors independence and competence to deliver quality audit service. Audit quality can mean different thing to different people. To the users of financial information, audit quality mean that auditors have certified firms' financial reports. To auditors, audit quality means applying all and required accounting standards through auditing to reduce risks associated with auditing (Chijoke-Mgbame and Chijoke, 2020).

Measuring auditor type has always been a challenge due to the fact that audit quality is not immediately observed. Quality auditor type try to align the audit procedures to established quality audit standards, codes and precedence over the audit process, but audit failure become more noticed in the context of business failure (Ugwu et al., 2020). When audit reveals discrepancies in financial statements, it is likely to be publicized by the business press, however, a number of poor audits have gone unpublicized or unnoticed by the business press. Also, a firm may have bad audit reports but it cannot affect its reputation once provided there is absence of discrepancies in financial reports. Due to the abstract feature of quality audit, researchers often use surrogates such as the auditor's reputation and brand to measure it (wooten, 2003)

Auditor type is importance for firm performance. Auditor type acts as quality corporate governance and solves the divergence in opinion among firm stakeholders and ensure quality firm governance. The purpose of using external auditors is to ensure that the information presented in the financial statements by the managements are correct and free from material misstatements, errors and fraud, and reflects the firm financial and economic outlook. This suggests that auditors enhance the reliability and credibility of financial statements. The International Auditing and Assurance Standards Board (IAASB, 2020) has designed a framework for auditor type. IAASAB (2020) framework of audit quality described input, process and output factors. The input factor describes the values, ethics, auditor's attitudes, knowledge, skill set and experience. The process level describes the strictness of the audit process and quality control procedures and the output level describes final audited financial statements, improvement in the entity's financial reporting, legislation, etc. Quality of an audit is an important issue in the auditing world today and it is of significant interest to both internal and external stakeholders' groups.

Although there is no universal definition for audit quality, Krishnan and Schauer, (2019) define audit quality as the degree to which the auditor performs his audit in conformance to the applicable auditing standards. In addition, audit quality can also be defined as the likelihood that the auditor is able to obtain enough audit evidence to detect and report on misstatements to ensure the accuracy of the audit report prepared by the auditor and increase stakeholder confidence (Shuhu, 2014).

According to Lin and Hwang (2011), the generally accepted auditing standards set forth the guidelines for the measurement of audit quality and the performance of the external auditor based on competence, independence and the exercise of due care in the auditing profession guidelines. Auditor choice indicators therefore may include the independence of the auditor, the size, technical expertise and experience of the auditor, audit fees and the tenure of the audit partner. According to Harjoto *et al.*, (2015), CEOs who demand greater audit assurance pay would have to invest hugely in audit fees to achieve such objective, and which enhances the overall financial reporting quality of the firm. Audit fees thus is mostly used to measure auditor type (Harjoto *et al.*, 2015). Ebrahim (2019) argues that audit size and experience can be used as a proxy for auditor type. His argument is in conjunction with De Angelo (1981) who observes Big 4 auditors provide service to larger companies and bad audit has greater reputational risk. Moreover, Anderson and Verma (2012) also used a probit model to support the assertion that audit tenure can be a good measure for quality audit, as such, audit firm rotation can be seen as a sign of promoting high audit quality. Thus, the longer the tenure of the audit firm, the quality of audits is impaired as there is familiarity between the audit firm and the staff of the client and therefore there is the need to rotate audit firms to maintain audit independency. Lastly, independence of the auditor guarantees objectivity in financial statements and imposes the needed trust and confidence in the various stakeholders and users of financial statements.

2.1.2 Audit Committee Effectiveness

Audit committee is a decision body of the board of directors tasked to supervise effective internal audit. The committee is responsible for the selection of role external auditors and receive audit reports from both internal and external auditors of the firm (Sultana, 2015). Audit committee effectiveness comprises characteristics such as AC size, AC independence, AC gender diversity and AC meetings.

2.1.2.1 Audit Committee Size (AC Size)

Audit Committee is the number of members in the audit committee (Vinten and Lee, 2020). Audit Committee size must have an appropriate number of members to effectively provide financial audit supervisory and oversight role (Vinten and Lee, 2020). Prior findings document inconclusive results on audit size and performance. Dalton (1993) observes that too large or too small audit committee size renders the committee ineffective. Too large AC size reduces member's attentiveness and they tend to lose focus and participate less in the audit activity due to social loafing. On the other and, too small audit committee size may suffer skills and experience resources and human diversity. An optimum AC size achieves efficiently the goals of audit committee.

2.1.2.2 Audit Committee Independence

Audit committee independence is defined as the number of outside auditors in the audit committee which ensure quality audit process (Yasser et al., 2011). Again, according to Dar *et al. (*2011) audit independence refers to the ability of audit members to perform their auditing role with no influence by management on the auditing outcome. To be independent, audit committee are required to be intellectually honest, free from any connected obligation and interest with key stakeholders (Yasser et al., 2011).

Literature document little evidence on audit committee independence and firm performance. The findings present mixed outcome. Some establish a positive relationship (Deye, 2008; Nuryanahe and Islam, 2011; Yasser *et al.,* 2011), whiles other report a negative relationship (Dar *et al.* 2011). The general expectation is that Audit independence leads to higher firm performance.
This is supported by existing evidence (Yasser et al., 2011). Independent AC ensures transparency in audit report hence reducing agency problem (Nuryanah and Islam, 2011). A study of financial institutions from G8 countries show that institutions having more independent AC directors performs better financially during the global financial crises (Yasser *et al.,* 2011). Similarly, Woidtke and Yeh (2013) found that fully AC independent would enhance formativeness of accounting earnings.

2.1.2.3 Audit Committee Meetings

Frequency of audit committee refers to the number of meetings scheduled by the AC within a year (Williams, 2020). Audit committee meeting is sometimes used in studies as a measure for audit committee effectiveness and activeness (Menon and Williams, 2020; McMullen and

Raghunandan, 2016). Studies show that AC which meets frequency can provide effective oversight roles in relation to monitoring (McMullen and Raghunandan, 2016). It is evidence from literature that companies have face much financial difficult have its audit committee not meeting regularly (McMullen and Raghunandan, 2016). It is anticipated that a proactive audit committee should have a characteristic of holding regular meetings to deliberate on issues related to how the company can achieve higher performance and met the set targets (Bansal and Sharma, 2016). Any AC which rarely meets are likely to provide less oversight role of the firm auditing process ((Amer, Ragab and Shehata, 2014).Audit meetings solves problem of information asymmetry and agency problem and provide timely and reliable information of the stakeholders of the organization.

2.1.2.4 Audit Committee Gender Diversity

Audit Committee gender diversity refers to female participation on audit (Chijoke-Mgbame and Chijoke, (2020). Drawing from both the ethical and economic theoretical perspective, studies have found inconclusive evidence on female audit committee representation and performance. Whilst some find a positive association (Chijoke-Mgbame and Chijoke, 2020; Larcker et al., 2004), others, however, find a negative relationship (Burgess and Tharenou, 2002; Francoeur et al., 2008; Campbell and Mínguez-Vera, 2008). This study, however, drawing from the resource dependency and social categorization theoretical perspectives, argues that increasing female participation in board activities would have a positive significant influence on organizational outcomes. First, the argument of social categorization explains the differences between males and females in relation to certain unique qualities such as affiliation and attachment, ethical behavior and cooperation (Gilligan, 1982). This is supported by Akaah (1989), which documents that females' marketers demonstrate higher ethical and judgmental standard compared to males. It further showed that unique female qualities such as ethical standard would influence economic outcomes positively.

Some studies however showed negative relationship. For instance, Francoeur et al. (2008) argue that more female audit committee representation may likely lead to interpersonal conflict, creating different group of interests within the committee. According to Burgess and Tharenou, (2002), social categorization accounts for mistrust and affect team's performance. In the general contest of Africa, many firms are required to have audit committee to supervise appointments of auditors and maintain sound audit process and reporting and prevent fraud.

Since AC is set to perform an audit function, the study argues that female's representation with the right competency and knowledge would elevate the AC to a higher performance delivery.

2.1.3 Earnings Management

Earnings managements (EM) is a well-studied accounting phenomenon. Earnings management, according to Dyreng et al. (2022) is the adjustment of firm's financial and economic numbers by management to either mislead or control contractual outcome. Similarly, Al-Shattarat et al., (2022) define earnings management as the use of judgment by managers in financial report to alter and misrepresent actual financial and economic performance of a firm. Firm's earnings are important source of investors decision, and therefore a target for manipulations (Gandía and Huguet, 2021; Grabiński and Wójtowicz, 2022; Androjuniko and Sihombing, 2022). Earnings management is difficult to observe. Agency theory provides structure to solve the self-dealing nature of earnings manipulation (Jensen and Meckling, 1976). For instance, management can design earnings to portray higher earnings to achieve earnings related benefits (Yang and Tang, 2022). Although, contract performance is important to reduce agency conflict, the managers have higher incentives to increases firm performance. Therefore, managers are influenced to design manipulation strategies to alter accounting numbers to meet performance expectation targets of shareholders, or to even sabotage the interests of certain shareholders (Sofian et al., 2022). According to Christensen et al. (2022), managers can use discretionary accruals to increase earnings. Meanwhile, Elnahass et al. (2022) argue that earnings management is a deliberate process, within the limits of accepted accounting principles to produce and expected earnings report.

Measure for earnings management include that DeAgelo model (1986). The Jones model (1991), the modified Jones model (1991), Healy model (1985), the Dechow-Dichev model (2002), the Kothari model (2005), and the Stubben model (2010). In literature, several of these studies use the real activities and the accruals method to measure earnings management accruals earnings management involves using different accounting procedures and methods to earnings by with no modification in cash, which is still within the limit of Generally accepted accounting principles (GAAP) (Ruggiero et al., 2022). On the other and, real activities earning management involves altering earnings by changing investment time, cash flow, or other operating arrangement Real activities manipulation departs from normal operating practice, inspired by management desire to mislead shareholders of firm performance (Roychowdhury, 2006; Sharma et al., 2022). Real activities manipulations are often used through sales promotion using discounted price, discretionary expenditure reduction. These are often difficult to detect by shareholders, regulators and auditors.

2.2 Theoretical Review

2.2.1 Agency Theory

Agency theory is proposed by Jensen and Meckling (1976). Agency theory proposes a conflict of interest among all stakeholders of a firm. This indicates that each party is pushing their interest over the other. This divergence in interest pushes managers to alter financial information to meet the performance expectation of other shareholders (Susilo and Ria, 2022). Information asymmetry between management and shareholders encourages earnings management practices (Hardiningsi et al., 2022; Hussain and Akbar, 2022). Management has more information about the financial and economic information of the company than managers, are incentivized to manipulate the information to deserve certain performance related benefits. Some management uses discretionary accruals to influence earnings management (Kurniawan et al., 202). Higher earnings increase firm value and attract investors, while lower earnings reduce firm value, therefore management alter earnings to achieve performance and investment outcomes (Al-Zaqeba et al., 2022)

Agency theory proposes quality corporate practice such as audit quality to reduce EM. Effective audit committee and audit quality supervises internal and external audit function, internal control systems, and in effect reduce earnings management (Hapsar et al., 2022). The use of Big 4 auditors ensures effective audit monitoring, and improves financial statements credibility. So that companies that use Big 4 audit fees, and pay higher audit fees are less involved in earning management practices (Gunawan and Surjandari, 2022). This study proposes that there is a negative relationship between audit committee effectiveness ad audit qualities on earnings management

2.3 Empirical Review

2.3.1 Audit Committee Effectiveness and Earnings Management.

Ghafran et al. (2022) examined the influence of AC busyness on EM, finding that increased AC effectiveness was linked to a negative impact on earnings management across a dataset of 350 companies spanning from 2007 to 2013. Almarayeh et al. (2022) shifted their focus to Jordanian firms between 2012 and 2020, investigating the effectiveness of AC in controlling EM through factors such as size, independence, expertise, and meeting frequency. They revealed that among these factors, only AC independence demonstrated a positive association with enhancing AC effectiveness in the context of EM. Aljadba et al. (2022) explored how specific AC characteristics, namely size and independence, influenced EM. Their findings supported the notion that greater AC effectiveness, as indicated by these characteristics, contributed to a reduction in earnings management practices. These studies collectively contribute valuable insights into the intricate dynamics between AC attributes and the management of earnings in diverse corporate settings.

Githaiga et al. (2022) analyzed 88 listed firms within the East Africa Community (EAC) over a decade from 2011 to 2020, using the system generalized method of moments (SGMM) estimator. Their findings highlighted the significant impact of AC attributes on Earnings Management (EM) in this region, with AC independence, AC size, and AC gender diversity all exhibiting a significant negative effect on EM. Meanwhile, Herranz et al. (2022) extended this investigation to 142 non-financial firms across France, Germany, Italy, Spain, and the United Kingdom during 2006 to 2013, focusing on AC competence measured by expertise dedication. Their results argued, demonstrating that AC expertise was inversely related with EM, emphasizing the critical role of proficient ACs in mitigating financial reporting manipulations. These studies collectively enhance our understanding of AC influence on EM, revealing its contextual notes across regions and underlining the pivotal role of AC composition and competence in preserving the integrity of financial reporting practices.

Zalata et al. (2022) investigated the influence of AC gender diversity and found that female AC members were associated with a reduction in earnings management practices. Alkebsee et al. (2022) focused on AC independence in Chinese firms, revealing that greater independence was linked to decreased EM. Meanwhile, Ali et al. (2022) investigated into Gulf Cooperation Council (GCC) countries, examining various AC attributes, including size, financial expertise, meetings, and independence, and found that all these factors played a role in reducing EM during the period. Together, these studies underscore the significance of AC composition and independence in curbing financial reporting manipulations across different regions and timeframes, offering valuable insights for corporate governance practices.

2.3.2 Auditor Type and Earnings Management

Through a series of insightful investigations, Sitanggang et al. (2022), Houqe et al. (2017), and Sitanggang et al. (2019) have explored the role of auditor type in shaping Earnings Management (EM) practices. Sitanggang et al. (2022) found that Big 4 audit firms, as a representation of auditor type, were associated with reduced earnings management. Houqe et al. (2017) extended this investigation to India and concluded that auditor type had a mitigating effect on earnings management in the Indian context. Meanwhile, Sitanggang et al. (2019) examined large manufacturing companies in the UK from 2010 to 2013, employing the fixed effect estimator. Their results revealed a significant relationship where audit fees (indicative of audit quality) were positively linked to abnormal discretionary expenses (as an EM measure) but inversely related with abnormal operating cash flow (another EM measure). Collectively, these studies highlight the significant influence of auditor type on earnings management, offering valuable insights into the complexities of financial reporting practices across different regions and timeframes.

Yasser and Soliman (2018), Rahman et al. (2020), and Isaac (2022) examine the into the relationship between audit-related factors and earnings management practices within distinct corporate settings. Yasser and Soliman (2018) focused on Egyptian companies spanning 2012 to 2016, revealing that auditor tenure, serving as a measure of audit quality, exhibited a positive association with earnings management. In contrast, Rahman et al. (2020) explored Malaysian top-listed firms from 2007 to 2014, using Big 4 auditors as a proxy for audit quality and abnormal discretionary accruals to estimate earnings management. Their findings indicated a significant negative effect, suggesting that higher audit quality was linked to reduced earnings management. Lastly, Isaac (2022) delved into French firms, distinguishing that those with Big 4 auditors recorded higher accruals and engaged in real earnings management, implying that auditor type influenced earnings management practices. These studies collectively offer multifaceted insights into the interplay of audit quality, auditor type, and earnings management across diverse global contexts.

2.3.3 Auditor type, Audit Committee Effectiveness and Earnings Management.

Limited studies exist on the role of AC effectiveness in quality audit and earnings management relationship. Many of the existing studies investigate audit quality and earnings management on real earnings management. For instance, Androjunik et al., (2022) investigates the effect of AC effectiveness and audit quality on earnings management of public companies operating in the food, beverage, and tobacco industry in Asian countries from 2018 to 2020. Their study shows that AC effectiveness such as AC independence and audit quality reduce earnings management. Agyei-Mensah and Yeboah (2019) investigate the effect of audit quality and AC characteristics on earnings management on listed firms I Ghana from 2013 to 2017. Their multivariate results reveal that AC experience, AC size and audit quality has negative influence on discretionary accrual. However, so significant relationship was found between AC independence, AC meetings and earnings management. A study on the moderator role of audit committee effectiveness was conducted by Ndrojuniko and Sihombing (2022).

They analyses the effect of audit quality and internal control on earnings management, with AC effectiveness as moderator variables in Indonesia from 2015 to 2019. Their study used multiple regression estimator. While their findings, find negative effect of auditor type on earnings management, audit committee effectiveness fails to moderate the relationship between auditor type and earnings management.

Ghafran and O'Sullivan's (2017) study on 350 UK companies between 2007 and 2010 revealed that greater audit committee expertise positively impacted audit quality, as reflected in audit fees. Similarly, Khudhair et al. (2019) found that in the context of Iraqi non-financial firms, audit committee independence played a pivotal role in determining auditor choice. Asiriuwa et al. (2018) extended this exploration to Nigerian companies, demonstrating that a combination of factors including AC independence, size, meetings, expertise, and overall effectiveness strengthened audit quality. Likewise, Al-Hajaya's (2019) examination of Jordanian listed companies from 2013 to 2017 concluded that higher AC independence and larger AC size correlated with increased audit fees and the engagement of Big 4 auditors, suggesting enhanced audit quality associated with these attributes. These studies collectively highlight the integral role played by audit committee characteristics and effectiveness in shaping the selection of auditors and, in turn, the quality of audits across diverse corporate landscapes

2.4 Conceptual Framework

Moderation is illustrated graphically in Figure 2.1, which shows that audit quality affects earnings management both directly and indirectly (i.e., path e) and indirectly (i.e., the combination of paths a and b) through the moderator audit committee effectiveness.

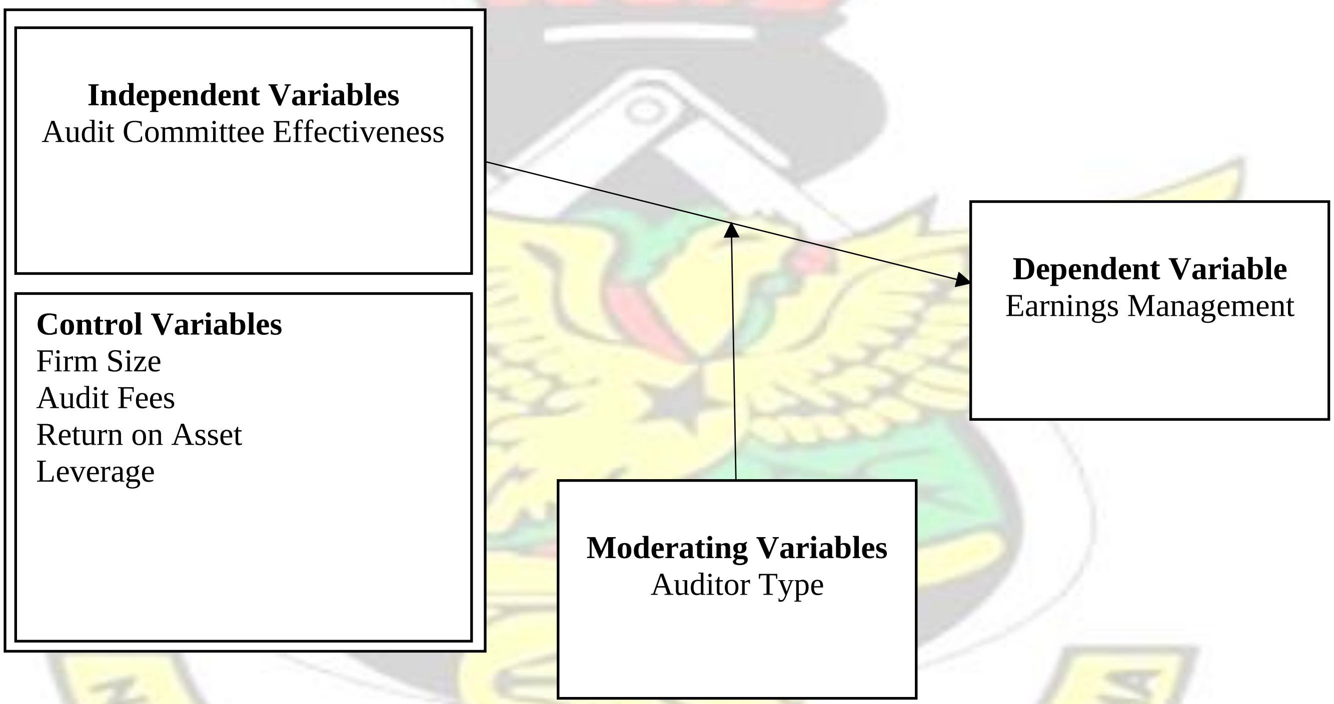

Figure 2. 1 Conceptual Framework

Source: Author’s Construct based on existing literature

2.5 Summary

This chapter reviews relevant literatures. It had four (4) sections. Section 2.1 presented the conceptual review and reviews constructs such as auditor type, audit committee effectiveness and earnings management. Sections 2.2 looked at the agency theory which was used to explain the auditor type, audit committee effectiveness and earnings management relationship. Section 2.3 presented the empirical reviews based on the study objective and section 2.4 presented the conceptual framework which summarised the study in a pictorial view.

CHAPTER THREE

METHODOLOGY

3.0 Introduction

The chapter presents the methods the study uses in achieving its objectives. The chapter has four (4) sections. Section 3.1 presents the research design, whiles section 3.2 provides the data used for the study. Section 3.3 presents the estimation techniques, highlighting the model specification. Section 3.4 provides variable description and measurements.

3.1 Research Design

According to Saunders et al (2009), explanatory study design seeks to ascertain a causal link between factors. In order to achieve the stated objectives, this study uses explanatory research as well as quantitative study. Using a quantitative approach, data are examined using statistical tools and procedures in order to meet the study's varied objectives. The study also uses a descriptive method to describe and explain the current phenomena. A descriptive study design may serve as a prelude to an explanatory study design, known as a descriptor-explanatory study. A descriptive design can be seen of as a step forward in the development of an exploratory study or, more commonly, a piece of explanatory research. A descriptive study can be used to justify current behavior or to make judgments and create ideas. The ability to investigate transformational change over time is one of the key advantages of integrating a descriptive and explanatory method in a single study (Cantwell, 2020).

3.2 Data Sample and Sampling Technique

The study uses quantitative data. The study uses both listed firms GSE and Ghana club 100 firms from Ghana investment promotion Council (GIPC) from 2012-2021. The club 100 companies are the most successful companies in Ghana launched in 1998 by the GIPC. This is to select firms with high financial records and performance to limit the study firms to the most successful enterprises in Ghana. The population of the study is all the club 100 firms and all listed firms in Ghana. The data are screened to select the firms with the available continuous data for the study's period. The study would purposively select 10 (10%) club 100 since many of these firms are also listed firms, and 10 (27%) from 37 listed firms, in total a sample of 23 firms, with focus of non-listed firms on the Ghana club 100 firms having a complete annual report. Bank level data include AC effectiveness (AC independence, AC size and AC gender diversity), firm size, firm leverage, audit fees, Big 4 auditors.

3.3 Specification model

The study uses two distinct estimators which are the panel regression model, and the direct logistics estimator. Equations 2, 4, 5 and 6) use the panel regression estimator, while equation 3 estimates with the logistics method. The general model is specified as;

Y_{it} =α + $BX_{it} + u_{it}$ ----------------------------- (1)

To examine the effect of audit committee effectiveness on earnings management

$$EM_{i,t} = \beta_o + \beta_{1it}ACIND_{\ i,t} + \beta_2 ACSIZE_{i,t} + \beta_3 ACGD_{i,t} + \beta_4 Audit\ Fees_{i,t} + \beta_5 FSIZE_{i,t} + \beta_6 LEV_{i,t} + \beta_7 ROA_{i,t} + e_{i,t} \ldots\ldots\ldots..2$$

To investigate the effect of auditor type on earnings management

$$EM_{i,t} = \beta_o + \beta_{1it}Big4_{\ i,t} + \beta_2 Audit\ Fees_{i,t} + \beta_3 FSIZE_{i,t} + \beta_4 LEV_{i,t} + \beta_5 ROA_{i,t} + e_{i,t} \ldots\ldots\ldots..3$$

To investigate the effect of audit committee effectiveness in the auditor type and earnings management relationship

$$EM_{i,t} = \beta_o + \beta_{1it}ACIND_{\ i,t} + \beta_2 ACSIZE_{i,t} + \beta_3 ACGD_{i,t} + \beta_4 BIG4_{i,t} + \beta_5 (ACSIZE * BIG4)_{i,t} + \beta_6 FSIZE_{i,t} + \beta_7 LEV_{i,t} + \beta_8 ROA_{i,t} + e_{i,t} \ldots\ldots\ldots..4$$

Where, EM is earnings management; ACIND is audit committee independence, AC size is audit committee size, ACGD is audit committee gender diversity, FSIZE is firm size, LEV is financial leverage, Big 4 is auditor type based on auditor's reputation; Audit Fees based on auditor's service charge.

3.4 Estimation Technique

Given the nature of this study, two estimators are employed which are the panel regression method and the Direct Logistics estimator. Hausman specification tests will decide of the type of panel estimator (i.e., fixed effect, ordinary least square, or random effect). The direct logistics estimator assesses the impact of AC effectiveness on auditor type (Big 4) auditing firms, due to the binary measurement of audit fees using the Big 4 auditing firms.

3.5 Variables Description and Measurement

3.5.1 Earnings Management

The study uses earnings management as the dependent variable. The study measures earning management using the modified Jones model to estimate discretionary accruals as measure of the extent of earning management practices **(**Githaiga et al., 2022**)**, and expressed as;

$$\frac{TAt}{At-1} = \alpha_1 \left(\frac{1}{At-1}\right) + \alpha_2 \left[\frac{(\Delta REVt - \Delta RECt)}{At-1}\right] + \alpha_3 \left(\frac{PPEt}{At-1}\right) + r_{it} \text{ ------------- } (1)$$

Where TA_t is total accruals, measured by taking the difference between net profit and operating cash flow; At-1 is total assets at the end of year t-1; $\Delta REVt$ is the difference in operating revenues in year t and year t-1; $\Delta RECt$ is the difference in net receivables in year t and year t-1; PPE_i is property plant and equipment at year end of year t.

3.5.2 Auditor Type (Big 4)

Big 4 auditing firms' measures auditor type. Engaging the services, Quality has unobservability features, and studies have often use surrogates such as auditors' reputation and industry record to denote quality. The Big 4 auditors are KPMG, Deloitte, Ernest and Young and PwC. They have greater reputational risk and would therefore protect their reputation by not succumbing to management pressure to produce self-centered audit report. Compared to other audit firms, the Big 4 have reputational risk, robust audit methods and systems, more competent and professionals. This study uses the Big4 as a proxy for auditor type. A dummy variable of 1 and 0 are signed. 1 for having the financial statements audited by the Big4 and 0 for otherwise.

3.5.3 Audit Fees

The study uses audit fees as a robust measure for audit quality. Audit fees are costs incurred on professional audit service (Githaiga et al., 2022). According to Rustam et al. (2013) audit fees is a product of price and quantity of audit service provided by Audit Company as requested by firms' directors. Audit fees is decided on the size of the firm, industry competition, profitability, ownership and market share (Anggoro and Rahmawati, 2022). High audit fees are often associated with quality auditing (Syamsuddin, 2022; Carson et al., 2022), thus this study uses it to measure audit quality.

3.5.4 Audit Committee Independence

AC independence is the proportion of independent directors on the audit committee (Adams and Ferreira, 2009). Several studies find that independent AC would influence audit outcome (see Alqatamin, 2018; Zraiq and Fadzil, 2018)

3.5.4 Audit Committee Size

Audit committee size is the number of audit committee members (Ali et al. (2022)). The number of sized of AC influences the output of the AC. Larger sized AC has diversity of experiences and may positively influence the output of the AC.

3.5.5 Audit Committee Gender Diversity

The study computes audit committee gender diversity as the proportion of female's audit members and total board members (Agyei-Mensah and Yeboah, 2019). More female members are expected to improve quality audit functions (Fadzil, 2018).

3.5.6 Firm Size

Firm size is the natural logarithm of firm's total assets. Studies reveal that larger firms are more likely to employ Big 4 auditors, suggesting that larger firms have audit quality compared to smaller firms which usually use non-Big 4 auditors.

3.5.7 Leverage

Following, Isaac and Franois (2022), leverage is measured as the ratio of debt-to-equity ratio Debt-to-Equity ratio is a common debt-based ratio that is used in most studies. Highly geared firms are likely to practice earnings management to qualify for external finance (Hussain et al., 2022).

Table 3.1: Variable Measurement and Description

Variable	Abbreviation	Measurement	Citation
Earnings Management	EM	Modified Jones model	Githaiga et al., (2022); Almarayeh et al. (2022)
Auditor Type	AT	A dummy variable equal to 1 if the sample firm is audited by Bi4 audit firm, 0 for otherwise	Al-Zaqeba et al. (2022)
Audit Fees	AudFees	Amount of statuary audit fees for the year	Syamsuddin (2022); Al-Hajaya, (2019)
Firm Size	FSIZE	Natural logarithm of total asset	Ugwu et al. (2020)
Audit Committee Size	ACSIZE	Number of audit committee members	Ali et al. (2022)
Audit Committee Independence	ACIND	Ratio of AC non-executive directors and AC size	Ali et al. (2022); Alkebsee et al., (2022)
AC Gender Diversity	ACGD	Ratio of AC female directors to AC size	Zalata et al. (2022);
Return on Assets	ROA	Net income divided by total assets	Boachie and Mensah, 2022)
Leverage	LEV	Ratio of total debt to total assets	Isaac and Franois (2022)

Source: Author’s elaboration

3.6 Summary

The chapter discussed the methods the study used in achieving its objectives. The chapter had four (4) sections. With the first section providing a thorough discussion on the research design used. Followed by the data sample and the sampling technique. The chapter again looked at the diagnostic and model specification. Lastly this section looked at the study variables and their description.

CHAPTER FOUR

RESULTS AND DISCUSSIONS

4.0 Introduction

This chapter presents the results of the data analysis and discussion of results related studies the study on audit committee effectiveness, auditor type and earnings management in Ghana. Section 4.1 presents the descriptive statistics of the data, section 4.2. Presents the Pairwise correlations matrix of the variables, section 4.3 provides the diagnostics test carried out on the data, section 4.4. Presents the panel regression results for the different models for the study and section 4.5 discusses the empirical findings of the study.

4.1 Descriptive Statistics

This *Table 4.1* presents the descriptive analyses of the dependent and independent variables of the study. The descriptive statistics of the panel data, include the number of observations, mean, standard deviation, minimum, and maximum values for each variable used in the study. These statistics provide insights into the characteristics and variability of the dataset. In this section,

we present a comprehensive overview of the descriptive analysis of our panel data, comprising 230 observations spanning a ten-year period across twenty-three companies.

Table 4.1: Descriptive Statistics

Variable	Observation	Mean	Standard Deviation	Minimum	Maximum
ABSDACC	230	60887592	195215741.54	3152532	2180000000
lnABSDACC	230	17.31	.771	14.964	21.503
AC_SIZE	230	3.809	1.128	2	7
AC IND	230	.828	.295	0	1
AC GND	230	.237	.243	0	1

AUTYPE	230	.765	.425	0	1
Firmsize	230	20.516	2.321	14.317	26.126
AuditFees	230	2150999	6321015.1	31721.74	49307500
Lnafee	230	12.769	1.577	10.365	17.714
ROA	230	.015	.137	-1.436	.414
LEVERAGE	230	.736	.24	.049	1.433

From the *Table 4.1*, earning management (ABSDACC) has a mean of GHS 60887592.00 with a deviation from the mean of 195215741.54. The minimum and maximum earnings management of GHS 3152532 and GHS 2180000000 respectively portrays a consistent level of Earnings Management among the sampled firms. Regarding AC_SIZE, AC IND and AC GND, the main independent variables for the study, the descriptive table indicates audit committee's size, audit committee independence and audit committee gender are having averages of 4 members approximately, 0.828 and 0.237 respectively. Approximately with a deviation of 1.128. About 76.5 percent of the sampled firms are having the BIG4 as their auditors. Firm size, representing the natural logarithm of total assets, has an average mean of 20.516. Audit Fees average GHS 2,150,999, with a substantial standard deviation of GHS 6,321,015.1. ROA suggests that the sampled companies generate an average return of 1.5% from assets. Finally, LEVERAGE averages 0.736, with a standard deviation of 0.240, and the values range from 0.049 to 1.433.

4.2 Correlation Analyses

Table 4.2: Pairwise correlations

Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
(1) ABSDACC	1.000										
(2) LNABSDACC	0.697*	1.000									
(3) AC_SIZE	-0.002	0.058	1.000								
(4) AC_IND	-0.021	0.096	0.242*	1.000							
(5) AC_GND	0.112	0.112	-0.093	-0.449*	1.000						
(6) AUTYPE	0.079	0.040	0.161*	0.235*	-0.146*	1.000					
(7) FIRMSIZE	0.279*	0.199*	-0.088	-0.125	0.220*	0.511*	1.000				
(8) AUDITFEES	-0.043	-0.143*	0.117	-0.089	0.100	0.168*	0.289*	1.000			
(9) LNAFEE	-0.044	-0.095	0.157*	-0.108	0.037	0.211*	0.371*	0.768*	1.000		
(10) ROA	-0.616*	-0.358*	-0.114	0.014	-0.024	0.099	-0.056	0.056	0.069	1.000	
(11) LEVERAGE	-0.149*	-0.205*	0.194*	-0.021	0.067	-0.224*	0.057	0.124	0.115	-0.357*	1.000

**** $p<0.01$, ** $p<0.05$, * $p<0.1$*

From *Table 4.3,* the independent variables Audit Committee Size and Audit Committee Independent is having a negative correlation with Earning Management (ABSDACC). This indicates as Audit committee size and Audit committee independence is increasing earnings management is also decreasing and vice versa. The Audit Gender Diversity and Auditor type is positively correlated with earnings Management implying an increase in gender diversity and auditor type is correlated with an increase in Earnings Management. A positive and significant correlation is established between Firm Size and Earnings Management. The Audit fees shows a negative correlation with Earnings Management. Profitability (ROA) and Leverage is negatively correlated with Earnings Management. Among the independent variables, the low correlation values suggest that there are no issues of multicollinearity for the estimation made under the study's model that is 0.8 (Kennedy, 2008). The VIF also shows the multicollinearity problem does not exist with all the variables VIF's are below the 5 thresholds (Hair et al., 2011).

4.3 Empirical Results

The Hausman test was used to assess the validity of the fixed effects model versus the random effects model. The null hypothesis is that the random effects model is consistent and efficient, and the alternative Hypothesis is that the random effects model is inconsistent and inefficient, and the fixed effects model is preferred. From the *Table 4.3*. the p-values for the Hausman test for the Model 1, Model 2 and Model 3 are 0.0000, 0.0014, 0.9413 respectively. So, we use the fixed effect model for Model 1 and Model 2 and the random effect model for Model 3.

The *Table 4.3* also presents the regression results for the study objectives. The aim of the study was to investigate the impact audit committee effectiveness and auditor type have on earnings management. Model 1 presents results on the relationship between audit committee effectiveness and the occurrence of earnings management. Model 2 presents the influence of auditor type on the occurrence of earnings management and Model 3 presents the influence audit committee effectiveness has on the relationship between auditor type and earnings management.

Table 4.3 Regression Results

	MODEL 1	MODEL 2	MODEL 3
	lnABSDACC	lnABSDACC	lnABSDACC
AC_SIZE	.054		.225**
	(.044)		(.099)
AC_IND	.222		.272
	(.21)		(.197)
AC_GND	.175		.238
	(.233)		(.227)
AUTYPE		.083	.374
		(.237)	(.399)
ACE*AUTYPE			-.188*
			(.111)
LNAFEE	-.051	-.027	-.065*
	(.039)	(.052)	(.037)
FIRMSIZE	.07**	.003	.12***
	(.033)	(.074)	(.035)
LEVERAGE	-1.085***	-.95***	-1.222***
	(.256)	(.34)	(.244)
ROA	-1.954***	-1.609***	-2.015***
	(.323)	(.329)	(.325)
_cons	16.919***	18.244***	15.748***
	(.745)	(1.394)	(.827)
Observations	230	230	230
Pseudo R^2	.0.3337	.2419	.3962
Hausman Test	0.0000	0.0014	0.9413

Standard errors are in parentheses
**** p<.01, ** p<.05, * p<.1*

LnABSDACC = the natural log of Absolute Discretionary Accruals, AC_SIZE = Audit Committee Size, AC_IND = Audit Committee Independence, AC_GND = Audit Committee Gender Diversity, AUTYPE = Auditor Type LNAFEE = Natural Log of Audit Fees, ACE* AUTYPE = Interaction term between Audit Committee Effectiveness and Auditor Type, FIRM SIZE = Size of Firm, ROA = Return on Assets, LEVERAGE = Capital Structure

From the table, Model 1 shows that all the independent variables (audit committee effectiveness) were not significant, but based on their individual coefficients, we could infer that AC_SIZE shows a positive but insignificant relationship with earnings management (LNABSDACC). The positive coefficient of 0.054 (standard error = 0.044) indicates that an increase in the size of the audit committee is associated with a 0.054 increase in earnings management. AC_IND also exhibits a positive coefficient of 0.222 (standard error = 0.210), suggesting that an increase in AC_IND corresponds to an increase in earnings management. AC_GND shows a positive coefficient of 0.175 (standard error = 0.233), implying that an increase in the number of female representatives on the audit committee is also associated with an increase in earnings management. ROA and leverage show a negative and highly significant relationship with earnings management ($r = -1.954$, p-value =0.01; $r = -1.085$, p-value = 0.01, respectively). This suggests that highly profitable firms and firms with high leverage will reduce earnings management.

Model 2 shows Auditor type have a positive relationship with Earnings Management (LNABSDACC) but not significant ($r = 0.083$, $p > 0.1$). Audit fees show an insignificant association with Earnings Management ($r = -0.027$, $p > 0.1$). The control variables ROA ($r = -1.609$, p-value = 0.01) and leverage ($r = -0.95$, p-value = 0.01) show a negative and significant association with earnings management.

Model 3 results revealed a statistically significant negative relationship ($r = -0.188$) between audit committee effectiveness and the interaction of auditor type and earnings management. This negative association suggests that as audit committee effectiveness increases, the impact of auditor type on earnings management diminishes. In other words, a more effective audit committee appears to mitigate the influence of auditor type on earnings management practices within the organization. Audit committee Size shows a positive and significant relationship with earnings management thus Firms with large audit committee have high earnings management. Audit Committee independence and Gender also had a positive but insignificant influence on the relationship between audit quality and earnings management ($r = 0.272$ and $r = 0.238$, respectively). The control variables audit fees, leverage and profitability (ROA) showed a negative and significant relationship. This indicates firms with high audit fees, leverage and profit base have low earnings management. But the positive relationship between firm size and earnings management indicates larger firms have high earnings management compared to the smaller firms.

4.4 Discussion on Finding

4.4.1 Audit Committee Effectiveness and Earnings Management

The study's findings indicate that both Audit Committee Size and Independence exhibit an insignificant but positive relationship with Earnings Management, while Audit Committee Gender Diversity shows an insignificant positive relationship. It's noteworthy that these results diverge from previous research, including studies by Ghafran et al. (2022), Almarayeh et al. (2022), Alkebsee et al. (2022), and Aljadba et al. (2022), which collectively found a negative relationship, suggesting that greater AC effectiveness (size and independence) reduces earnings management. On the other hand, the negative relation between gender diversity and earnings management aligns with the findings of Githaiga et al. (2022), who also observed a negative effect of AC gender diversity on earnings management. However, the positive relationship between AC Independence and AC Size contradicts their study. These discrepancies highlight the complexity of the relationship between audit committee attributes and earnings management, indicating that contextual factors may play a significant role in shaping these associations.

Zalata et al.'s (2022) study findings on the effect of AC gender diversity on earnings management are consistent with the study findings. The insignificant association suggests that the audit committee's effectiveness does not provide meaningful explanatory power for earnings management. It therefore does not provide reliable evidence that the effectiveness of the audit committee is a significant predictor of earnings management.

4.4.2 Auditor Type and Earnings Management

The study findings provide a positive and insignificant association between auditor type and earnings management. The auditor type-earnings management relationship contradicts Sitanggang et al.'s (2022) findings, the specific auditor a company chooses to go for are related to reduced earnings management. The insignificant association suggests that the audit committee's effectiveness does not provide meaningful explanatory power for earnings management. It therefore does not provide reliable evidence that the effectiveness of the audit committee is a significant predictor of earnings management.

4.4.3 Auditor Type, Audit Committee Effectiveness, and Earnings Management

These findings align with the expectation that a strong audit committee can act as a mitigating factor in the management of earnings, serving as a check and balance to potentially unfavorable actions associated with specific auditor types consistent with the study of Androjunik et al. (2022), whose study focused on public companies operating in the food, beverage, and tobacco industries in Asian countries to investigate the effect of AC effectiveness and auditor type on earnings management. With their findings, they argued AC effectiveness, such as AC independence and auditor type, reduce earnings management.

Audit committee size had a positive effect on earnings management. This suggests that a larger audit committee enhanced the positive relationship between auditor type and earnings management contradicting with the findings of Agyei-Mensah and Yeboah (2019). Audit committee gender diversity had a positive relationship with earnings management. This implies that having gender diversity on the audit committee increases earnings management. In other words, when the audit committee was more gender diverse, it contributed earnings management. The lack of a significant association suggests that the effectiveness of the audit committee does not offer a substantial explanatory factor for earnings management.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.0 Introduction

This chapter provides summary of findings for the study on the Audit Committee Effectiveness, Auditor Type and Earnings Management in for firms in Ghana**.** The chapter is organized into four (4) main sections. Section 5.1 presents a summary of findings for the study objectives. Section 5.2 conclusion on major findings, section 5.3 on the policy implication and recommendations and section 5.4 provides limitations of the study and also provides suggestions for future researches.

5.1 Summary of Findings

The study's findings reveal that the relationships between audit committee effectiveness components; independence and gender, auditor type, and earnings management are not statistically significant. In the context of Audit committee effectiveness the AC gender and independence of the committee showed positive but insignificant associations with earnings management, while the size of the audit committee exhibited a significant positive association. These results deviate from some previous studies, challenging the view that a more substantial or independent audit committee always leads to better financial reporting oversight. Additionally, the study found that the link between auditor type and earnings management was insignificant, which contradicts with the findings of previous studies. Furthermore, the moderating effects of audit committee characteristics on the relationship between auditor type and earnings management were significant and negative, suggesting that effective audit committee composition and auditor type combine power will reduce earnings management relationship.

5.2 Conclusion

The study's concluding findings highlight the complexity of the relationship between audit committee composition, auditor type, and earnings management. While the study examined factors like audit committee size, independence, and gender diversity, gender and independence did not find statistically significant relationships except audit committee size suggesting that looking at audit committee composition from one perspective may not be appropriate. Furthermore, the study emphasizes that relying solely on the presence of a specific auditor type s as a factor to conclude a quality audit to enable reduce earnings management is insufficient. Instead, a holistic view of auditor type and effective audit committee, involving factors such as auditor diligence, independence, internal controls, and the audit committee's effectiveness, is important for maintaining financial reporting integrity. Additionally, the moderating effects of audit committee characteristics suggest that a balanced and diverse audit committee can enhance its effectiveness in reducing earnings management.

5.3 Policy Implications and Recommendations

The study suggests that while audit committee effectiveness itself may not significantly intervene in the relationship between auditor type and earnings management, specific characteristics of the audit committee, such as independence, size, and gender diversity, can moderate this relationship. These findings again highlight the importance of considering the composition and characteristics of the audit committee when analyzing its impact on financial reporting quality and earnings management. Also, corporate they should modify their audit committee structures to their specific circumstances, considering industry, company size, and other contextual factors. This flexibility can optimize the committee's ability to oversee financial reporting and mitigate earnings management risks effectively.

Further organizations should shift their focus from solely relying on the reputation of audit firms to a more comprehensive assessment of auditor type. Ensuring a diligent and independent auditing process, strong internal controls, and an effective audit committee are all critical components in maintaining financial reporting integrity. Lastly, companies should prioritize diversity and independence in the selection and evaluation of audit committee members, recognizing that a mix of expertise and gender diversity can potentially enhance the committee's effectiveness in reducing earnings management.

5.4 Suggestions for Further Research

Future research can investigate into how industry-specific factors affect the relationship between audit committee composition and earnings management. Different industries may have unique challenges and opportunities when it comes to financial reporting and understanding these nuances can help organizations tailor their governance practices more effectively. Future studies could also complement quantitative analyses with qualitative research methods that is a hybrid approach, to provide deeper understanding of the decision-making processes within audit committees. Qualitative approach could provide more insight into the role of audit committee members in corporate governance.

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