THE IMPACT OF HIGH-QUALITY FINANCIAL STATEMENTS ON THE QUALITY OF INDEPENDENT AUDITS. A STUDY OF INDEPENDENT AUDITORS IN GHANA.

Master's Thesis

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MASTER'S THESIS

Program in Accounting (Turkish)

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ÖZET

YÜKSEK KALİTELİ MALI TABLOLARIN BAĞIMSIZ DENETİMLERİN KALİTESİ ÜZERİNDEKİ ETKİSİ: GANA'DAKİ BAĞIMSIZ DENETÇİLERE YÖNELİK BİR ARAŞTIRMA

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Bağımsız denetim, yatırımcılara kaliteli finansal tablo güvencesi sağlamak için en önemli süreçlerden biridir. Gelişmekte olan bir ülke olarak Gana, ülkeye daha fazla yatırımcı çekme ihtiyacı duymaktadır. Bunu yaparak işletmelerin, bağımsız bir denetçi güvencesi (bağımsız denetim raporu) ile güvenilir bir mali tablo sunması gerekmektedir. Ancak, finansal tabloların kalitesini etkileyen ve bağımsız denetimlerin kalitesini etkileme eğiliminde olan faktörler vardır. Bunu dikkate alarak, bu çalışma Gana'da yüksek kaliteli mali tabloların bağımsız denetimlerin kalitesi üzerindeki etkisini değerlendirmeyi amaçlamaktadır. Bu araştırma, Gana'daki bağımsız denetim şirketlerine odaklanmaktadır. Bu nedenle Greater Accra ve Ashanti Bölgeler, veri toplama için hedef nüfus olmuştur. Çalışma hem birincil hem de ikincil veri toplama kaynaklarını kullanmıştır. Toplam hedef kitle 316 iken, örneklemleme teknikleri kullanılarak 84 anket dağıtılmıştır. Ancak, dağıtılan anketlerin sadece 80'i geri alınabilmiştir. Bu araştırma nicel bir çalışma olduğu için, Spearman sıra korelasyon analizi ve sıralı regresyon tekniğini kullanarak Statistical Package for Social Science (SPSS) benimsemektedir. Bu değişkenlerinin arasındaki etkiyi ve mevcut ilişkiyi belirlemek için kullanılmaktadır. Çalışmanın sonuçları, yüksek kaliteli mali denetim ile kaliteli bağımsız denetim arasında pozitif bir ilişki olduğunu göstermektedir. Bu çalışma, finansal tablolar ve bağımsız denetim altında yapılacak gelecekteki araştırmalar için bir yol sunmanın yanı sıra, mevcut literatüre de katkıda bulunmaktadır.

Anahtar Kelimeler: Bağımsız denetim, Mali tablo/rapor, Denetim kalitesi, Bağımsız denetim tehdidi, Gana.

ABSTRACT

THE IMPACT OF HIGH-QUALITY FINANCIAL STATEMENTS ON THE QUALITY OF INDEPENDENT AUDITS: A STUDY OF INDEPENDENT AUDITORS IN GHANA

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Anadolu University, Graduate School of Social Sciences, May 2023

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Independent auditing is one of the most important processes for providing assurance of quality financial statements to investors. Ghana as a developing country has the urge to attract more investors into the country. By so doing businesses need to provide a credible financial statement with an assurance of an independent auditor (independent audit report). However, there are factors influencing the quality of financial statements which tend to have an impact on the quality of independent audits. Taking this into account, this study aims to assess the impact of high-quality financial statements on the quality of independent audits in Ghana. This research focuses on independent audit firms in Ghana and for that reason, Greater Accra and Ashanti Region were the target population sample for data collection. The study employed both primary and secondary sources of data collection. The total targeted population is 316. However, with the sampling techniques used, a total of 84 questionnaires were distributed. We only retrieved 80 of the total questionnaires distributed. This research is a quantitative study and therefore, the study adopts the Spearman order rank correlation analysis and the ordinal regression technique using the Statistical Package for Social Science (SPSS). This is employed to determine the impact and the relationship that is present between the variables. The results of the study showed that there is a positive relationship between high-quality financial and quality independent audits. This study also contributes to already existing literature and provides a path for future research under financial statements and independent auditing.

Keywords: Independent audit, Financial statement/report, Audit quality, Independent audit threat, Ghana.

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STATEMENT OF COMPLIANCE WITH ETHICAL PRINCIPLES AND RULES

I hereby truthfully declare that this thesis is an original work prepared by me; that I have behaved in accordance with the scientific ethical principles and rules throughout the stages of preparation, data collection, analysis, and, presentation of my work; that I have cited the sources of all the data and information that could be obtained within the scope of this study, and included these sources in the references section; and that this study has been scanned for plagiarism with "scientific plagiarism detection program" used by Anadolu University, and that "it does not have any plagiarism" whatsoever. I also declare that, if a case contrary to my declaration is detected in my work at any time, I hereby express my consent to all the ethical and legal consequences that are involved.

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(Signature)

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(Name and Surname of the Student)

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LIST OF ABBREVIATIONS AND SYMBOLS

AAA : American Accounting Association

AASB : Australia Accounting Standard Board

ASB : Accounting Standard Board

COSO : Commission of the Committee of Sponsoring Organizations

FASB : Financial Accounting Standard Board

FRC : Financial Reporting Council

GDP : Gross Domestic Product

IAASB : International Audit and Assurance Standard Board

IAS : International Accounting Standard

IASB : International Accounting Standard Board

ICAG : Institute of Chartered Accountants Ghana

ICFR : Internal Control Framework

ICFR : Internal Control Framework

IES : International Education Standards

IFAC : International Federation of Accountants

IFRS : International Financial Reporting Standards

IIA : Institute of Internal Auditors

PCAOB : Public Company Accounting Oversight Board

α : Alpha

β : Beta

1. INTRODUCTION

Most countries had a traditional way of preparing a financial statement but that did not attract foreign investors or the capital market. The reason was that it was hard for foreign investors to interpret and understand financial statements. To promote international trade relations around the globe and boost the capital market, International Accounting Standards Board (IASB) was propounded with the aim of promoting common standards in accounting practice and ensuring global uniformity in all accounting practices and satisfying the needs of stakeholders of a financial statement of an organization. International Accounting Standard Committee (IASC) was substituted with IASB in 2001 with concerns that a developed global accounting standard will establish a union between national accounting standards[1].

So many changes have occurred in Ghana concerning financial reporting practices, the standards used in this practice previously were outdated and did not conform with international standards of accounting. Until 2007 the International Financial Reporting Standards (IFRS) was adopted (Agyei-Mensah, 2013). It also commenced practicing governmental auditing in 1910 during the British colonial Administration.

In the 21st century, financial and audit reports work simultaneously where the influence of one affects the other. Nonetheless, they are the underlying tools that influence the economic decision of every business and stakeholder. As such the quality of financial and audit reports is of great significance to its users. This means that in audit and financial reporting, comprehending, and implementing the determinant of high-quality reporting is significant (Gaynor et al., 2016). However, both financial and audit quality are affected by factors such as economy and politics, internal control, business ethics, accounting information system, audit size of a firm, audit fee, and audit independence, just to mention a few. These showed the feasibility of quality in financial reports and auditing. According to Herath and Albarqi (2017), in the early 21st century there has been a worldwide increase in accounting scandals that pointed out the weaknesses in financial reporting quality. Nonetheless, numerous studies have been conducted in Ghana including those relating to

[1]https://www.iasplus.com/en/resources/ifrsf/iasb-ifrs-ic/iasb

compliance with IFRS, financial reporting and its disclosures, the adaptation of International Accounting Standard (IAS), and audit independence.

However, there have been limited studies in Ghana concerning the link between quality financial reporting and quality independent audits. Yet, several international research on measures/determinants of a high-quality report in both audit and financial accounting reports have been conducted. Thus, this study aims to investigate how high-quality financial statement affects the quality of independent audit in Ghana. So, the study begins by looking into financial reporting and independent audit quality definitions. Then, the researcher links the definitions to literature reviews of other research on financial reporting and audits. Financial reporting and audit are two distinctive reports constructively different in function. Though, they are interdependent on one another. Thus, is there a direct relationship between a quality financial report and audit independence? Conversely, a better interpretation can be obtained from the research findings if we observe a different outcome.

As stated above, organizational policies, business ethics, political conditions, and client affiliations with auditors can influence both financial reports and audit quality, which then affects the determinants of financial reporting quality and audit quality. Hence, the researcher conducts a survey in Ghana in which the respondents are professionals in either of the fields (finance and audit) to determine if correlation between quality financial reporting and quality independent audit exists. Finally, the researcher gives recommendations and suggestions where necessary.

1.1 Problem Statement

In auditing, the significance of independence is so overwhelming that various attempts have been made by lawmakers, accounting bodies, and professional audit firms to regulate its existence. Accordingly, it mandates that an auditor works independently, with due diligence, and free from bias in his or her opinion. Likewise, an accountant is expected to prepare financial reports independently without interference. This is to say that audit reports and financial reports are the underlying tools that influence the economic decision of every business and stakeholder. As such the quality of financial and audit reports is of great significance to its users. This means that in audit and financial reporting, comprehending, and implementing the determinant of high-quality reporting is significant.

In addition, a quality financial report affects the quality of an audit report all factors being equal. However, the quality of a financial report can be influenced by managerial policies, political uncertainties, and other factors. Similarly, this applies to an audit report, whereby client relations, conflict of interest, economic policies, and others can interfere in the audit process, thereby affecting the quality of independent audits.

Ghana, like any other country experiences such problems. Again, a larger percentage of businesses owned in Ghana are Small and Medium Enterprises, which prepare little or no financial reports on their business activities. In such cases, obtaining an audit report without owners'/management interference is hard. This tends to affect independence of the audit process and quality of independent audits. Therefore, a poor financial report may affect the quality of the audit process. Hence, answers to the following questions are sought.

- At what extent do political and economic uncertainties affect the quality of an independent audit?
- To what extent do client-auditor relation affect quality independent audit?
- To what extent do internal control systems interfere with the quality of financial statements and independent audits?
- To what extent do an auditor's educational level and experiences affect the quality of independent audits?
- To what extent do complex accounting standards affect the quality of independent audits?

1.2 Objectives of Study

Business investors and other stakeholders that have an interest in a financial/audit report have concerns about its quality, so long as it plays a significant role in their decision-making process. However, this study generally aims to investigate how high-quality financial statement affects the quality of independent audit in Ghana. In particular, the study will address below the following statements:

1) To assess the effect of client-auditor relations on the quality of independent audits.

2) Assess internal control systems impact on independent audit quality.
3) To assess the degree to which an auditor's educational level affects independent audit reports.
4) To determine how political and economic uncertainty affects the quality of independent audits.
5) To assess the degree of impact of complex accounting standards on the quality of independent audits.
6) To make recommendations/suggestions on ways to overcome the problems regarding the high-quality financial report and quality independent audit.

1.3 Significance of Study

The outcomes of this research will be beneficial to the following groups of interest:

- **Academic Researchers**

  The outcome of the study can help academic researchers to widen their scope in financial reports and audit independence. Hence increasing their understanding of these fields.

- **Financial and Audit institutions**

  The findings of this study will help these institutions, including Small and Medium Enterprises understand a quality financial and audit reports impact and essence to its stakeholders and even in their business growth.

- **Policy Makers**

  The outcome of this study will help policymakers, including the government, accounting, and audit regulators (like ICAG, and IFAC), and business managers to be aware of the impact of their policies or decisions on the financial and audit reports of businesses and the economic growth of the country at large.

1.4 Hypothesis Statements

H_1 Complex accounting standards has a negative impact independent audit.

H_2 Political uncertainty has positive impact on independent audits.

H_3 Internal controls system has positive relationship with independent audits.

H_4 Client-auditor relationship has a negative effect on independent audits.

H_5 Educational level and experience of professionals has a positive effect on independent audits.

1.5 Limitations

This research assesses the influence of high-quality financial statements on quality independent audits in Ghana, specifically audit institutions. This means the study is restricted to only audit firms. Also, this study will employ audit process as a determinant of independent audit quality. Again, although studies on this topic are conducted in other countries, little or no study has been conducted concerning this topic in Ghana, making it difficult to access more information for the study. The work nature, seclusion of some audit firms, and the difficulties in obtaining responses, a small number of data was gathered.

1.6 Conceptual Framework

The conceptual framework looks at the variable and how they relate to each other to explain the research problem. In this study, a quality financial report has a range of factors that influence it which the researcher will focus on. In this study, the researcher closely observed how these variables affect the quality of financial reports (Independent Variable) which will correlate to their impact on the quality of independent audits (Dependent Variable). These variables include complex accounting standard, internal control system, Client-auditor relationship, educational level and experience, and political uncertainties. Empirical literature was assessed in line with the above-mentioned variables which aid in arriving at the hypothesis of the study.

1.6.1 Complex accounting standard and independent audit

Some financial reporting standards, for instance, determining the intrinsic or fair value of an asset may vary from firm to firm. Computation of it may be complex to estimate depending on the accounting standards being used. Again, an auditor may find it difficult to determine how it is estimated if standards are complex, which has tendency to influence the audit process and audit quality. This has been indicated by the American

Accounting Association, where studies evidence that a decline in audit quality can be cause by a rise in complex accounting valuations and partiality in accounting and auditing standards.

Below is a hypothesis developed by the researcher in light of the above.

H_1 complex accounting standards has a negative impact on independent audits.

1.6.2 Political uncertainty and independent audit

Political and economic instability affect business operations which cause other firms to have affiliations with politicians to gain certain benefits. Fisman (2001) cited in Hasan et al., (2012) stated that political affiliations increase corporate value. Faccio (2006, 2010) mentioned that including reduced lawsuit, ease during financial difficulties, and others are some of the advantages presented when politically affiliated. Goldman et al., (2009) also stated that businesses affiliated to politics businesses gain profitable government contracts. Preuss and Konigsgruber (2021) report that firms that connected politically makes comprehension of financial reporting incentives difficult in terms of rent and political costs.

Dai and Ngo (2020) claim that cost of compliance and accounting performance of a firm is significantly impacted by the adjustments in government expenditures and taxation rules and also legislative and regulatory dynamics. Though research indicates that, political uncertainty may affect business performance, and this is observed in the study carried out by Khan et al., (2016) who stated in order for firms to deal with some of the unfavorable impact of political volatility, their financial statements are validated by external auditors. However, the performance of the business cannot be said to directly affect the independent audits. This is based on the point that an auditor provides reasonable assurance irrespective of whether a firm is influenced by political occurrences.

From the above, the researcher deduces the hypothesis below.

H_2 Political uncertainty has a positive impact on independent audits.

1.6.3 Internal controls and independent audit

According to COSO (2004) on Internal Control Framework, internal control is a system influenced by a company's management, board of directors, and other personnel intended to give reasonable assurance concerning the attainment of objectives related to the compliance, operation, and reporting (Asiligwa and Rennox, 2017). It comprises of control set up per GAAP Internal Control Framework (ICFR) to present reasonable assurance that the financial statements of a company are dependable.

Internal controls include suggestions from internal auditors, management, and audit committee as a measure to enhance the business's financial reporting system. According to American Accounting Association (AAA) cited in Feng et al., (2015), any deficiencies in the internal controls and usage of information technology can affect financial report which tends to affect the audit quality.

Research on internal control, its efficiency, and effectiveness conducted by (Ndamenenu, 2011) stated in his findings and inveterate the declaration of the Treadway Commission of the Committee of Sponsoring Organizations (COSO), it is the duty of management to create the internal control system and that the internal auditor's function is to assess the effectiveness or otherwise of the system. His study concluded that internal audit unit is in charge for the effectiveness and efficiency of the internal controls, and it must be institutionalized in any company and within its branches.

It can be deduced from the above statements that it is an independent auditor that provides a reasonable assurance on the internal controls of a business after conducting an independent audit. This implies that internal controls of the client's business have impact on audit process and procedures.

Independent auditors are either employees of an organization or outside of the organization charged with the obligation to serve as overall assurance providers. Independent auditors are then required to advise on the sufficiency and effectiveness of internal controls and to evaluate and monitor various governance decisions made by management (Sarens, 2006). Hence, effective internal control system is probable to contribute positively to the work of an independent auditor.

Based on the above empirical evidence, the researcher formulates hypothesis 2 below.

H_3 Internal controls system has positive relationship with independent audits.

1.6.4 Client-auditor relationship and independent audit

Assorted studies are showing the client-auditor relationship established longer makes the work of the auditor easier due to experience with the client business operations built over time. This makes it easy for the auditor to identify any emerging problem and provide solutions to it. Baldacchino et al., (2017) mentioned in their study that there is research that advocates that a factor by means of long-term engagements such as auditors' experience with clients, industry expertise, and responsiveness to client requirements among other elements realized is audit quality (Daugherty and Tervo, 2008; Joshi et al., 2009; Boldeanu and Tache, 2016). Whiles other researchers state otherwise about the client-auditor relationship.

Bamber and Venkataraman (2005) stated that there is fear that the essential principle of independence may be threatened by auditors' familiarity and identification with their clients. Zhou and Zhou (2007) indicated that auditors have the motivation to disregard prospective crises and deliver a clean judgment on the client firm's internal controls when a compelling economic bond between an auditor and a client firm is apparent. It is not surprising that auditors can encounter substantial familiarity and social pressure threats stemming from their association with management. This, therefore, brought about audit rotation to ensure independent audits. However, client-specific knowledge obtained by audit firms over time is lost which negatively affect audit quality, hence audit firm rotation is required as it may increase independence (Cameran et al., 2014).

In light of the above evidence, the following hypothesis is constructed.

H_4 Client-auditor relationship has a negative effect on independent audit.

1.6.5 Educational level and experience and independent audit

To a considerable extent, the quality of financial reporting depends on the strength, size, competence, adequacy, and effectiveness of the accounting profession (Ali and Ahmed, 2007). It has been argued that a well-developed accounting profession leads to improved, judgmentally based public accounting systems rather than centralized and uniform systems (Radebaugh and Gray, 1993). Similarly in Ghana, the World bank also noted a lack of a centrally coordinated curriculum and a lack of strong teaching methods as well as weak critical thinking skills by students (Assenso-Okofo, Ali, and Ahmed, 2011). Further, Assenso-Okofo et al., (2011) stated that the professional education and training for accountancy is burdened with several difficulties, where the given curriculum for educating and training professional accountants and auditors does not fully meet the International Federation of Accountants (IFAC) and International Education Standards (IES).

Also, according to Libby and Frederick (1990), they find that the auditor can increasingly find a variety of assertions in explaining audit findings due to the high level of experience the auditor has, audit quality can be influenced by auditors' experience.

In addition, preceding studies debated on the disparity between accounting studies and the skills of the student. (Lim et al., 2016; Abayadeera and Watty, 2016; Kavanagh and Drennan, 2008) tapped the expectation gap in accounting education and argue that a gap exists between the skills that employers want accounting graduates to have and the skills that students have at the time of graduation. Monroe and Woodliff (1993) stated studies have indicated that accounting education can play a leading role in enhancing the audit process performance and in closing the expectation gap between auditors and stakeholders by equipping graduates with the skills required to make quality audits.

Given the above, we established the hypothesis below.

H_5 educational level and experience of professionals has a positive effect on independent audit.

Conceptual Framework

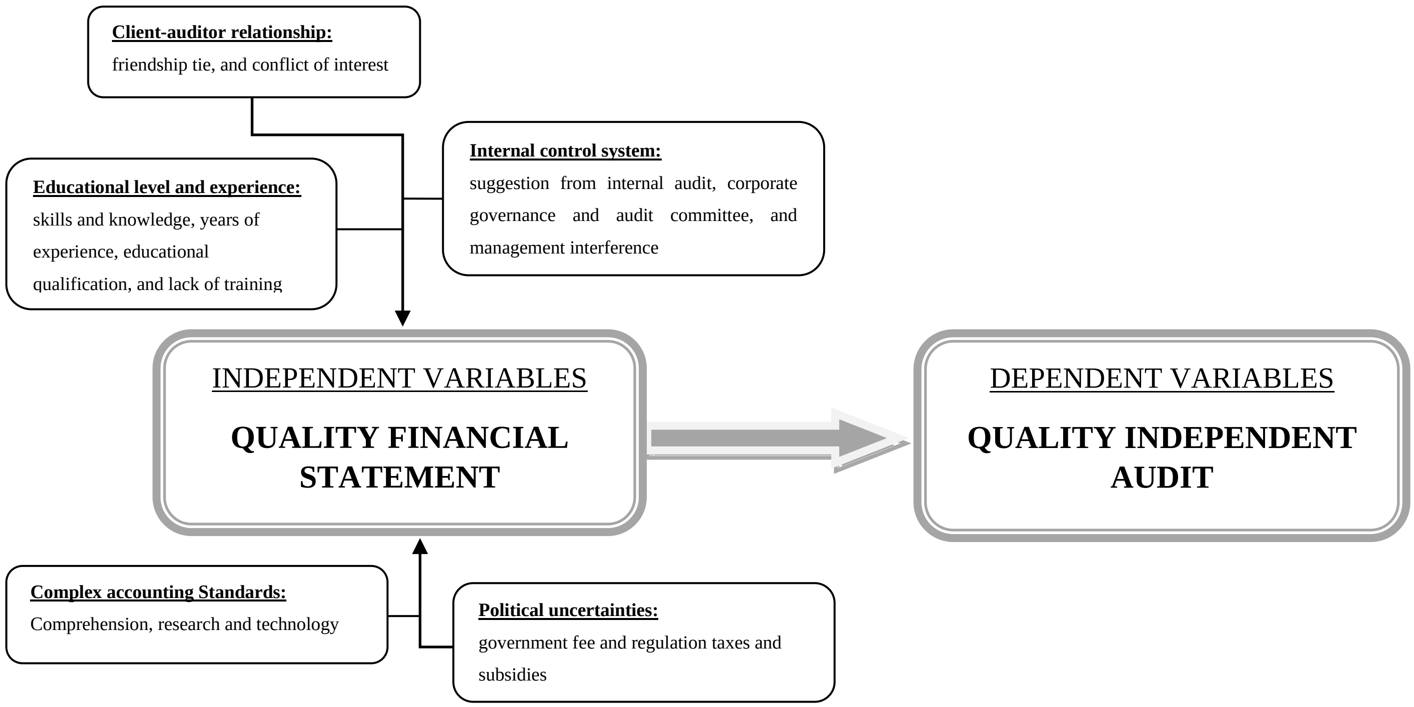

Figure 1.1 *Framework: The relationship between variables (author's construct)*

2. LITERATURE REVIEW

This section presents the various concepts, theories, and definitions reviewed concerning, the impact of high-quality financial statements on quality independent audits. In so doing, brochures, articles, journals, various books, and other related research works on the topic were used by the researchers in this study.

2.1 Financial Reporting

It is the process of communicating and documenting financial data, such as statements, showing the monetary activities and performance of a business over a period. To explain the various elements that are underlined in financial reporting quality are facilitated by the Conceptual Framework of Financial Reporting (Gaynor et al., 2016). (Assenso-Okofo, Ali, and Ahmed, 2011) also mentioned, a quality financial report to a considerable degree depends on how properly standards are structured and imposed by a renowned qualified institution, and the process and procedure of establishing these standards should be sufficient and acceptable by international standards.

According to the Conceptual Framework, the overall aim of financial reports is to present information about the economic state of a reporting entity, thus data regarding the entity's economic resources and the claims against the reporting entity, and to also give information concerning the effects of transactions and other monetary activities which can alter a reporting entity's economic resources and claims (FASB, 2010).

More so, the article "Financial Statements as a management tool" by Pelekh, Khocha, and Holovchak (2020) indicated various definitions for financial reporting by various authors including the following: Financial reports are written notes which illustrate the business activities and profit or loss of a company (Murphy, 2019), Financial statements are a means to publish financial outcomes of an entity. This reporting is a crucial means to perform control functions that will assist in dealing with investor affairs in their public segment (Bragg, 2018), Financial reporting is a process of acquiring information that discloses the financial state of an entity to management, investors, and government (Rouse, 2013), According to Cambridge Dictionary, financial statements are a collection of documents that indicate the financial state of the company at the end of an accounting year, including its profit or loss, Business Dictionary also defined it as a set of records that are typically organized or prepared by state authorities at the close of the reporting period.

To add, the collection of financial reports comprises a statement of financial position, statement of profit and loss, cash flow statement, equity statement, and others which are used by investors, lenders, and creditors for economic decision-making. Financial reports are to deliver information concerning the reporting entity that is beneficial to current and possible investors, lenders, and other creditors in decisions making regarding providing resources to the entity, which involves acquisition, disposal, or holding equity and debt instruments and providing or settling loans and other forms of credit (FASB, 2010). These reports show the economic position and performance of a business.

Further, the framework elaborates on the fundamental characteristics of a financial report thus the ‘relevance and faithful representation’ which describes what it signifies to “use of information”. Referring to the framework, due to either its predictive or confirmatory value, relevant financial information is “capable of making a difference in the decisions made by users,” while faithful representation of financial data is complete, neutral, and free from mistake (FASB, 2010).

2.1.1 Quality financial reports

In reference to the Conceptual Framework, a high-quality financial report is referred to as a set of information that gives more helpful predictive or confirmatory data regarding an entity’s underlying economic state and performance and is more complete, neutral, and free from mistakes (Gaynor, Kelton, Mercer, and Yohn, 2016).

Per Financial Accounting Standards Board (FASB), IASB, Accounting Standard Board in the United Kingdom (ASB) [UK], and Australian Accounting Standard Board (AASB), financial reporting quality embodies financial statements that present true and fair data regarding the inherent financial position and economic performance of a company (Herath and Albarqi, 2017).

Also, Verdi (2006) referred quality financial reporting to be the accuracy with which financial reporting communicates info concerning the entities operational activities, particularly its anticipated cash flows, to update equity investors.

Wood and Horner (2010) also explained quality financial statements/and reports as that present a true position and activities of entities and give relevant info to financial statement users. Again, Brookson (2009) defines the quality of the financial statements as reports presented under accounting standards which shows the financial state and outcomes of operations at the end of a reporting period of an entity.

According to Agyei-Mensah (2013), a financial statement is not prepared only to conform with IFRS, it must also be of high quality. There are four major qualitative characteristics of financial data used to measure the quality of financial reports which are entrenched within financial statements preparations and presentation framework by the International Accounting Standards Board (IASB, 2010).

According to a report by Dessalegn (2021), IFRS promotes high-quality, clear, and comparable financial data. He went further to state that, it is beneficial for international organizations, as it aids stakeholders, creditors, and other interested persons or groups to thoroughly assess the performance of their investment.

Gaynor et al., (2016) state that, numerous methods have been employed by academic studies to define financial reporting quality. These methods show various components of quality described in the Conceptual Framework. For instance, other studies concentrate on the completeness aspect of reporting quality and determining quality as the degree of voluntary disclosure (Botosan 1997; Botosan and Plumlee 2002). Additional research focuses on the confirmatory value and predictive value aspects. According to FASB, understandability, faithful representation, relevance, comparability, timeliness, and verifiability are the qualitative characteristics of a financial report. It further categorizes two out of the qualitative characteristics thus faithful representation and relevance as the basic/fundamental qualitative characteristic with the remaining as enhancing qualitative characteristics thus comparability, understandability, timeliness, and verifiability.

2.1.2 Qualitative characteristics of financial reports

These attributes explain all features of a quality financial report. It shows the determinants of what a quality financial report is, and it is characterized in two ways: fundamental/basic and enhanced qualitative characteristics.

2.1.2.1 Fundamental qualitative characteristics

- **Relevance**

A financial statement (information) is said to be relevant if it could make a difference. Thus, it is comprised of either predictive or confirmatory value or both. The predictive/analytical value means that financial statements or data can be processed by users to estimate future outcomes. Meanwhile, the confirmatory value means financial data could be used to provide responses (confirms or changes) about prior evaluations. In other terms, materiality is a factor of relevance specific to a firm centered on the kind or significance of both items to which the data concerns the setting of a particular entity's financial report (FASB, 2010).

- **Faithful Representation**

Faithful representation means a financial statement (data) is complete, neutral, and free of mistakes (FASB, 2010).

2.1.2.2 Enhanced qualitative characteristics

Enhanced quality of the data given in financial statements is presented in a way that is easily comprehensible by users, that is; it is clearly and concisely presented (IASB, 2010).

- **Comparability**

As an enhanced quality, financial statements are said to be comparable if information about a reporting entity could be compared with similar data about other companies and with similar data concerning the same company for another period or date (FASB, 2010). This ensures an evaluation of their relative financial state, performance, and financial compliance. Therefore, it requires consistency.

- **Verifiability**

Also, verifiability as an enhancing quality indicates that distinct informed and independent stakeholders can reach unanimity, even if not inevitably complete agreement, that a certain depiction is a faithful representation. Thus, financial reports can be verified directly or indirectly (FASB, 2010).

- **Timeliness**

Timeliness means having data readily accessible to economic decision-makers on time in order to be proficient in guiding their choices. Usually, information becomes less convenient as it gets older. Nevertheless, some data may remain apt long after the end of an accounting period, for instance, some users may need to identify and assess trends (FASB, 2010).

2.2 Auditing

The audit is defined by the economic times as an investigation or examination of several books of accounts by an auditor proceeded by a material inspection of stock to ensure all divisions are adhering to the documented system for recording transactions. The article further indicated this is done to ensure the accuracy in other words quality of a financial statement provided by an organization (The Economic Times, 2022)[2]. The term audit is similarly defined as a process of examining organizations or individuals' financial records to show if they are accurate and under acceptable financial standards, regulations, and laws (AccountingEdu, 2021)[3].

In the International Journal of Auditing, Knechel (2016) stated the Merriam-Webster definition of auditing as a full assessment of the financial records of an entity or person and added a generalized definition, as a meticulous inspection or review of something. This definition of audit fails to indicate that auditing is done per any regulations or standards. It does, however, state the complete examination of financial records. Knechel (2016), finally expanded his explanation of audit as:

"*Economically motivated professional service designed to reduce the information risk of stakeholders that relies on the knowledge and skills of experts used in a systematic process that considers the idiosyncratic needs of a client where the outcome is unobservable and subject to market constraints and regulatory forces*" (Knechel, 2016).

In the first two definitions above we understand that audit is conducted to assure quality financial statements either of an individual or a firm. Cohen and Kaimanakis (2011) state audit opinion assure that the financial statements have been prepared per the standards of accounting and that the financial state, outcomes of activities, and the amount of surplus

[2]https://economictimes.indiatimes.com/
[3]https://www.accountingedu.org/what-is-auditing/

or deficit are fairly declared on the organization being audited. Broadly, a quality financial statement can be achieved through a quality audit as a service that is rendered by an auditor. This indulges us to further investigate what is a quality audit. We can derive some explanation of a quality audit in the latter definition of an audit that, is conducted under adopted principles and standards. Therefore, the information provided to reduce the risk for stakeholders through auditing in Knechel, (2016) definition of an audit, must rely on the knowledge and skills of an expert (auditor) of which the systematic process used in providing such information is governed by certain standards of reports and therefore a quality audit.

2.2.1 Audit quality

Accordingly, Public Company Accounting Oversight Board (PCAOB) defined audit quality as reaching stakeholders requirements for independent and consistent audits and vigorous communication of audit committees on financial reports. This includes related disclosures; assurance about internal control; and going concern threats (PCAOB, 2013). Gaynor et al., (2016) again, mentioned that the PCAOB project was supported by the Center for Audit Quality, which also said the role of the audit committee, compliance with regulations and standards, the audit firm’s system of quality control, as well as connections to the PCAOB’s quality control and professional standards must be incorporated in audit quality definition (e.g., knowledge, experience, etc.). From the perspective of financial report stakeholders, thus investors and users, high-quality audits are ways the auditors use to provide an informative audit judgment (DeFond and Zhang, 2014).

Coram et al., (2008) refers to audit quality as likeliness of an auditor to find unintentional/intentional inaccuracies in an entity’s financial reports and the prospect that these findings are included and reported in the auditors’ opinion. DeFond and Zhang (2014) also mentioned audit quality as quality of an auditor’s opinion (i.e., assurance), not the opinion itself, whereby the auditor's judgement varies in quality, with high-quality auditors rendering greater assurance that the financial reports faithfully reflect the firm’s underlying economics.

Further, DeFond and Zhang (2014) arguments proposed that higher audit quality provides significant assurance of high financial reporting quality. In that, obtaining a high-quality financial report depends on a financial structure of the firm and its intrinsic characteristic. The financial reporting structure comprises internal controls, which designs the firm's main economics into the financial reports, and the innate characteristics are characterized by its basic economics, which is determined by its income generation process (Dechow et al., 2010). Together, the firm's financial reporting process and innate characteristics impact on how faithfully its financial reports reflect its underlying economics, thereby restraining the achievable level of reporting quality of finance. Hence, they specifically described higher audit quality as "greater assurance that the financial statements faithfully reflect the firm's underlying economics, conditioned on its financial reporting system and innate characteristics."

According to International Auditing and Assurance Standard Board (IAASB), (2014) the term audit quality involves components which provide an environment that maximizes possibilities of a consistent quality audit, and this can be achieved by a professional team that exhibits the following characteristics below:

- Appropriate attitude, ethics, and values.
- Having adequate knowledge, experience, skills, and sufficient time allocated for audit.
- Followed thorough audit process and quality control procedures in government laws, regulations, and acceptable standards.
- Provide a useful and on-time report.
- Communicate properly with relevant stakeholders.

2.2.1.1 Framework for audit quality

The board also designed a framework for audit quality regardless of firm size, nature, and complexity. But the attributes in this framework are different in every firm and their importance and impact vary in diverse ways on audit quality.

Below are the elements within the framework:

(a) Inputs: This includes the values, ethics, skills, experience, and knowledge of auditors. The audit engagement level and interactions with key stakeholders.

(b) Process: The strict process adopted by the auditors which are governed and guided by laws, regulations, and standards.

(c) Outputs: This includes reports and information provided promptly and improvements to a firm's financial reports that may be recommended by auditors because of an audit process.

(d) Strategic relations in the financial reporting supply chain: In supporting high-quality financial reporting, formal and informal interaction between investors that promotes a dynamic relation existing between inputs and outputs in the audit framework plays a vital role.

(e) Contextual Factors: This encompasses the laws, regulations, and corporate governance that directly or indirectly have an influence on the quality of audit reports.

The Framework can be depicted as follows:

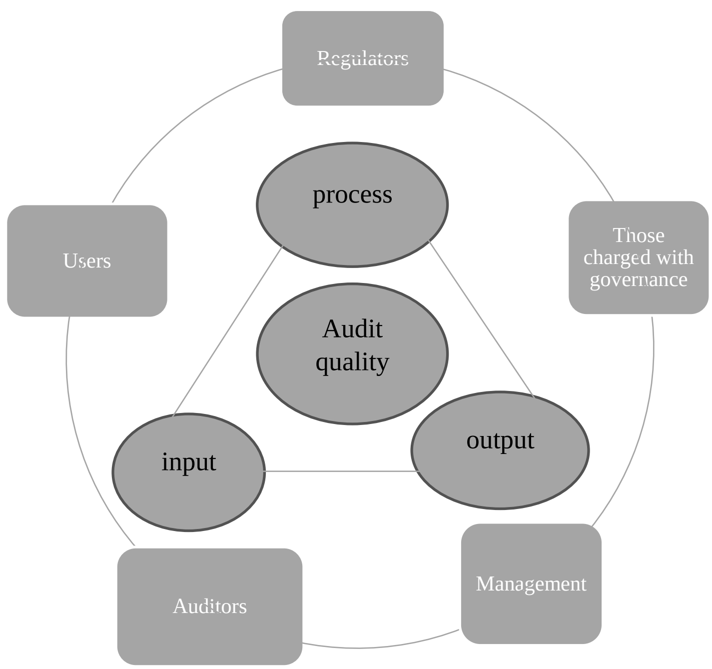

Figure 2.1 *Element for Audit Quality Framework (Source: International Auditing and Assurance Standard Board (IAASB), 2014)*

In a journal of practice and theory, Knechel et. al., (2013) indicated that audit quality cannot be categorically defined. Its definition varies depending on the perspective one considers in terms of the users, auditors, regulators, and society. Users may think that audit quality signifies the lack of material misstatements. An auditor might define audit quality as excellently fulfilling all responsibilities mandatory by a firm's audit practice. An audit firm could estimate a quality audit as an audit work that can be shielded against a scrutiny or court of law. Also, regulators possibly understand quality of audit as audit that complies with professional standards. Lastly, society could regard quality of audit as audit that prevents economic or financial issues for a company or the market. But generally, none of these definitions above clearly defines audit quality and are not considered as benchmark of audit quality definition.

Knechel et al. (2013) further stated that the widely used explanation for audit quality is the one by DeAngelo (1981, 186), and defines it as "the market assessed joint probability that a given auditor will both discover a breach in a client's accounting system and report the breach." The stated definition has 2 underlying factors firstly, an auditor will detect a breach in a firm's accounting structure, then secondly will report the breach discovered. Therefore, the first aspect is linked to an auditor's knowledge, skills, and competence while the latter refers to the level of professionalism, objectivity, and independence of the auditor.

- The Journal also pointed out several definitions of audit quality which are as follows; Government Accountability Office (GAO 2003, 13) defines audit quality as an audit executed per Generally Accepted Auditing Standards (GAAS) providing reasonable assurance that the audited financial statements are submitted in unity with GAAP and are not materially misstated whether due to mistakes or deception.
- Some practitioners concentrate on error discovery and the financial statement result, proposing that an auditor with high-quality will find errors in reported earnings and improve the reliability of the financial statements citing (Chan and Wong 2002; Gul et al., 2002; Behn et al., 2008; Chang et al., 2009).
- Even more, various studies point out audit quality to be associated with the quantity of audit work citing Carcello et al., 2002 (Knechel et al., 2013).

Above all the definitions stated, there is a pattern of similarities in the understanding of high audit quality. So, for these reasons, the journal stated a more uniform structure that may best evaluate or gauge a high-quality audit as indicated below.

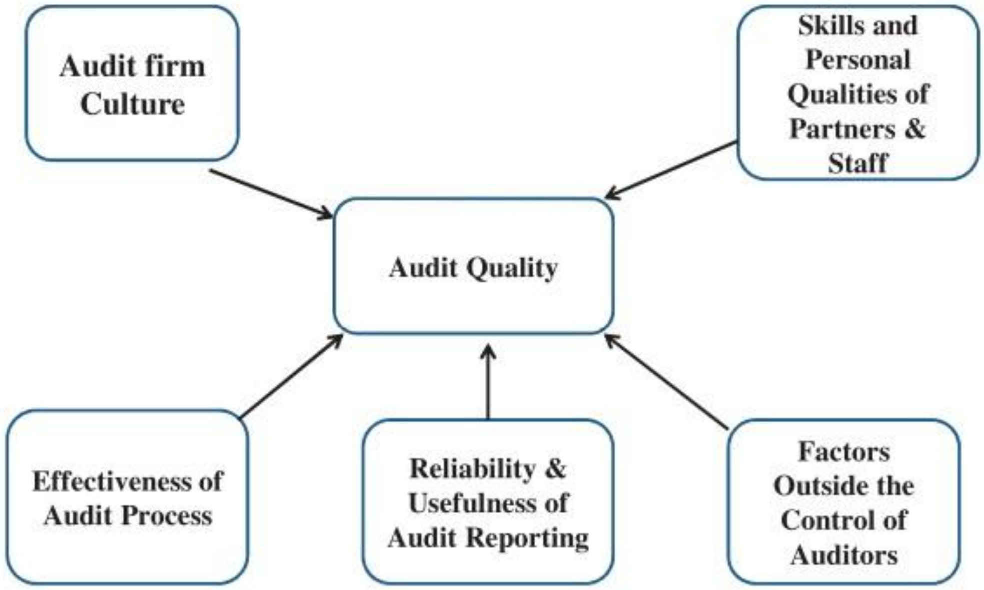

Figure 2.2 *Audit Quality Framework (Source: Knechel, Krishnan, Pevzner, Shefchik, & Velury, 2013)*

The journal derived these critical drivers of quality of audit from the U. K's Financial Reporting Council as its first formal effort in creating an audit quality framework.

- Audit culture
- The skills and personal qualities of partners and staff
- The audit process effectiveness
- The reliability and usefulness of audit reporting
- Factors outside the control of auditors

These indicators or factors for audit quality are explanatory by themselves as audit firms' culture is based on establishing surroundings in which attaining high-quality audit is natural and regarded. The indicators developed by UK's Financial Reporting Council are similar-to the framework discussed by International Auditing and Assurance Standard Board as elaborated in previous chapter.

2.2.1.1.1 Audit Culture

Culture is a complex mental process activated by social interactions. Firms must create an environment where attaining high-quality audit work is regarded and compensated, which highlights the significance of 'performing the right thing' in the interest of the public (Council, 2018). Debates on reinforcing audit firm culture tend to incline towards firm-level variables, such as the ‘tone at the top in audit practices, the operational division between the audit and consulting arms in multidisciplinary firms, the inclusion of independent non-executives (INEs) in firm governance and observing of culture, and the use of audit quality indicators (AQIs) in internal management and incentive systems (FRC, 2021).

Audit firm culture and audit quality are inextricable. Audit firms need the right culture to steer the right behaviors, which in turn is essential for high-quality audits. An audit firm ought to create its culture around expertise and independence. These qualities are the basics for a strong relationship between companies and their investors and other stakeholders. The International Ethics Standards Board for Accountants’ (IESBA’s) role and mindset provisions offer a robust criterion for establishing a culture across an entire firm both audit and non-audit.

Per the Council, (2008), the culture of an audit firm is likely to give a optimistic result to the audit quality. To be exact if leaders in audit firms: i) create an atmosphere where achieving high quality is treasured and invested, ii) ensure the adequacy of time and resources for partners and staff, iii) ensure a robust system for client acceptance and continuation, iv) the importance of ‘performing the right thing’ to the publics interest and also the reputation of the firm is emphasized, v) financial considerations will not drive action and negative effect on the quality of audit, and others.

However, some research studies have shown that there are instances where audit firm culture could gradually shift from professionalism and client service satisfaction to commercialization. Meaning that the leaders of the audit firm could set a tone of a culture where profit maximization is the objective of the service and auditors are more appreciated if they can get more clients for profit reasons rather than providing a quality audit service.

Alberti et al., (2022) referred to various research studies conducted about audit firm culture. It includes the studies below on varying aspects of audit firm culture.

According to Sweeney and McGarry (2011), audit seniors perceive partners to focus on profits over other goals (thus, audit quality, client, and staff satisfaction) that are publicly expressed to clients and prospective employees. Picard et al., (2018) in their study also show how marketization resulted in closer relationships with clients, shifting auditors’ ways of "thinking and doing" away from professional values. They conclude that both firm and individual level aspects of marketization potentially threaten auditor independence.

Carter and Spence (2014) also found that the "economic capital" of successful professionals predominates over other capitals (e.g., cultural, social), as managers must navigate the shift from technical expertise to a commercialistic focus to achieve partnership, signaling the true values of successful partners. Again, some research works were of posit that professionalization and commercialization could both be prioritized. Citing from Coram and Robinson (2017) on factors influencing performance-based pay, found that while firms track partner performance in revenue generation and obtaining new clients, they also reward technical expertise and staff development, recommending augmenting attention on professionalism. They identified that to be competitive with the Big 4 firms, mid-tier firms are inclining towards similar performance-based profit-sharing schemes.

In addition, some archival studies found evidence at the engagement level distinguishing audit quality. Ittonen et al., (2015) found higher audit quality for engagements of partners with more public clients, suggesting a tone of greater willingness to stand up to client pressure (thus less client affinity) in the engagements they led. Bauer (2015) showed that greater client identification results in lower audit quality judgments, consistent with prior research, but finds firms can reduce the effect through guidance reinforcing professional identity. Koch and Salterio (2017) show that client affinity is associated with lower audit quality (thus adjustments to a client's proposed aggressive accounting), but do not find that a client satisfaction survey (implemented by the firm to measure the client relationship) induces greater client affinity.

Just like the values of the firm that is embedded and eventually become a culture, ethical values can be embedded which as well tends to be part of the culture of the firm. It is easy if leaders of a firm exemplify these ethical codes in their actions, forcing staff members to do also same by emulating them. To obtain trustworthiness, the values ought to be modeled in leaders' behavior; staff has a privilege to think, 'show me, do not just tell me' (Cowton, C., & Peters, I. 2021). Hence, an excellent audit firm's objective is provided through business and especially ethical values entrenched in culture, which is backed by a firm’s code of ethics that guides behavior, thereby ensuing in audits that are reliably performed with competence and integrity (Cowton, C., & Peters, I. 2021).

2.2.1.1.2 Audit process

It can be said that an audit process is the fundamentals of an audit quality. According Suleiman, Shahimi, and Singh (2019) as cited by Francis (2011) mentioned that the audit process is a production function consisting of audit procedures as a depiction of what auditors do in the rendering of audit services. Stating further that the audit process involves procedures such as engagement planning, assessing risk, compiling evidence, and evaluating the audit performance that influences the quality of audit performance (Knechel et al., 2013; Sutton, 1993). According to the Council, (2008), audit process is expected to deliver an optimistic input to audit quality where: i) the audit methodology and tools applied to the audit are appropriately arranged (including proper planning, proper audit documentation, compliance with audit standards, effective review of audit work and others), ii) availability of high-quality technical support, iii) the purposes of ethical standards are achieved and iv) gathering of sufficient audit evidence not improperly inhibited by financial pressure.

Juran's (2020) report on the importance of audit quality stated that a quality audit process should;

“i. *determining the scope of audit-the criteria should focus on risk areas in the business or process lifecycle and remain consistent over time wherever possible. Making it easier to analyze performance and giving clear goals to work between audits. ii. planning and preparation-the priority for the organization being audited are to appoint an auditor and then establish the format of the audit, ensuring it aligns with its objectives and that all employees have time to prepare…….and v. corrective action- here, if any non-compliance with standards is identified in any area, the organization will need to act immediately. It is more than one area; this corrective action must be done one after the other to determine improvement or any changes”*[4].

[4]https://www.juran.com/blog/the-importance-of-quality-auditing/

2.2.1.2 Factors affecting quality of audit

From indicators and frameworks, it is stated that quality of an audit is influenced by some audit components which include: an audit firm size, audit remuneration, audit expertise, and business environments as well as audit tenure and many others. These factors directly or indirectly affect the quality of audit. Preceding studies observed audit quality in reference to the link between 'input' factors – such as audit firm size, audit fees, and audit tenure and 'outcome' factors - such as the quality of earnings, the exactness of financial data, and lawsuit in regards to audit quality (DeAngelo, 1981; Kim, Chung and Firth, 2003) cited in (Suleiman, Shahimi, & Singh, 2019).

- **Audit firm size**

The input elements in the framework, such as skills, values, auditor experience, knowledge, and even reputation is significant in larger audit firms than in small audits. Which directly has a bearing on quality of audit service. Thus business managers will prefer to hire the service of a larger audit firm over a small audit firm. According to Hosseinniakani, Inacio, and Mota (2014), to obtain the best auditing results clients aim at selecting a high-quality auditor. So, large audit firms with higher reputation increase in demand than small-scale audit firms. Hence, the greater the status, the higher incentive to deliver a clear and precise audit report, for the reason that erroneous audit reports could cause a decrease in reputation. A fall in the status could result in drawing fewer clients and low audit fees. Large auditors with credible clients are at risk of higher shortfalls compared to small auditors should an inaccurate report is issued. Hence, to maintain their reputation large audit firms are required to issue reliable audit reports (DeAngelo, 1981). Hosseinniakani, Inacio, and Mota (2014) further stated different studies explored the relationship between audit quality and auditor size (e.g., Francis & Yu, 2009; Hay & Davis, 2004). Most of them established that large-size auditor firms are constructively correlated with audit quality (e.g., Colbert & Murray, 1998; DeAngelo, 1981; O'Keefe & Westort, 1992). In terms of financial report quality, Ogungbade et al., (2021) in their study again concluded that the size of an audit firm, primarily employing the big four firms, enhances quality in financial reporting.

- **Audit fee**

Knechel et al., (2013) mentioned that in experimental research auditor opinion is likely influenced by stimuli that could either negatively or positively affect the quality of the audit process. According to Herath and Pradier (2018), research has revealed that bigger firms tend to charge higher fees owing to the notion that they might offer a better-quality audit. This suggests that the audit fee has an indirect effect on the quality of an audit with the size of the audit firm as a mediating factor. Again, Hosseinniakani et al., (2014) stated that large audit firms have the propensity to employ better professionals with higher auditor expertise and specialization, which includes technical information and constant education, relative to small-size firms. Hence, in achieving a higher audit fee large audit firms are expected to show a higher auditor's specialization (thus, audit quality) (DeAngelo, 1981). Research study by Submitter et al., (2021) established in their findings that there is a significantly positive relationship between audit fees and audit quality, where a higher audit fee results in high quality of audit. Hence, more detailed, and in-depth audit procedures by Public Accountant Firms are motivated by high audit fees which tend to affect the result of the audit.

However, in a study of Audit and Financial Reporting Quality of Banks in Nigeria by Ogungbade et al., (2021) asserts that the quality of audit (audit fees) considerably enhances reporting quality in the finance of Deposit Money Banks (DMB's) in Nigeria.

- **Audit expertise**

Auditor expertise or industry expertise performs a substantial role in audit quality. Skills, knowledge, experience, and competence, all make an auditor expert in the field which ensures a quality audit service. As said by Knechel et al., (2013) an auditor's expertise and knowledge directly affect audit quality. Acquiring knowledge in this specific domain (through either a client, task, or industry experience) relates to higher-quality auditor opinion (e.g., Bonner and Lewis 1990) and is essential for developing auditing expertise (e.g., Frederick and Libby 1986; Bedard 1989; Bonner and Lewis 1990). Francis (2004), and Solomon et al., (1999) debate that industry experts possess more in-depth knowledge than non-experts owing to greater experience in the industry which facilitates experts to construct more precise audit judgments. If accounting firms retain more clients/fees in an industry, then they have more opportunities for their auditors to develop the sort of deep industry knowledge which will lead to industry expertise. Again Submitter et al., (2021) also concluded in their study that auditor expertise simultaneously has positive and significant influence on audit quality such that it is easier to detect errors and their cause when the auditor is more experienced. Hence, an auditor with lots of work experience, skills, and knowledge will produce better audit quality.

- **Audit Tenure**

An audit firm's tenure can be defined as the length of time an auditor performs services for a client. Risks related to the loss of independence are augmented once client relationships are retained for a prolonged period. On the other hand, some individuals believe retaining a long-term and faithful relationship will increase independence Herath and Pradier (2018). An increase in audit independence leads to a corresponding rise in audit quality.

2.3 Effects of Independent Audit on the High-Quality Financial Statement

As part of the literature review, the researcher addresses the relationship between independent audits and high-quality financial statements. By so doing we establish what independent audit is, the importance of independent audit, and the threats to independent audit. As we have already mentioned quality financial statements above.

2.3.1 Independent audit

Auditor independence is an important part of auditing service therefore failures and upheavals such as the Enrons scandals and others raised many concerns for independent auditors to restore the trust and confidence of stakeholders in a financial statement. As mentioned accordingly by Herath and Pradier, 2018, "audit independence refers to the ability of the external auditor to act with integrity and impartiality during his/her auditing functions". Continuously also by making referrals to the fact that, Independent Standards Board (ISB) developed a framework for auditor independence owing to absence of varying rules and regulations and that the framework outlines independence of auditor as "freedom from the factors that compromise, or can reasonably be expected to compromise, an auditor's ability to make unbiased audit decisions" (Mcgrath et al., 2001).

Marques, Major, and Da Veiga, (2019) have mentioned a similar above definition of audit independence but further added that DeFond et al. (2002) and Bartlett (1993, p. 55) simplify the idea by eliminating “nonspecific terms” as integrity or objectivity and describing independence to be “an unbiased mental attitude in making decisions about audit work and financial reporting”. According to Housseinniakani (2014), auditor independence is the ability of auditors to conduct, in mind, appearance, factually devoid of influence, and independent auditing could be seen as a underlying requirement in a functioning capital market.

Chan (2012) also cited in a dissertation that independent audit has an important function in enhancing quality financial reporting (Cohen et al., 2004). Nonetheless, an independent audit executed with less quality might be at the expense of financial reporting quality. Hence, it can be debated that audit quality is positively correlated with financial reporting quality.

Marques, Major, and Da Veiga (2019), again mentioned that there are two concerned aspects of auditor independence that are notable, thus, independence in fact and independence in appearance. The former is an unbiased idea that allows auditors to resist the effects that undermine their professional judgment, and the latter is rationalized as impairing the auditor’s ability to maintain given unbiased decisions and refers to avoiding situations that lead to a knowledgeable third party to resolve that an auditor’s decisions have been conceded.

In an article by Rusmanto (2017), he mentioned scholars like Knapp (1982. p. 10). In support of Shockley’s (1981. p. 785) ideology of audit independence, they argued perceived independence to be more focused on the public than independence in fact and further stated that “for credibility depends ultimately on the perception rather than on the fact of independence.” Rusmanto (2017), further cited Falk et al., (1995) claiming auditor independence “in fact” is not apparent ex-ante.

Marques, Major, and Da Veiga (2019), went further to state that, so far as independence “in fact” are not exactly evident, Dopuch et al., (2003) indicated the unlikelihood to control an individual’s mindset promptly. Instead, regulators, therefore, do depend on the appearance aspect, this moreover shows the merits of populace opinion (Dopuch et al., 2004).

Chia-Ah and Karlsson (2010), specify that independence could be categorized into two characteristics: independence of mind and independence in appearance. Where independence of mind necessarily demands auditors have a mindset that allows or promotes an establishment of an uninfluenced opinion that may compromise a professional judgment, in that way allowing an individual to function with honesty, practice objectivity, and professional doubt. Alternatively, independence in appearance necessitates auditors to disdain conditions that make others presume they are not upholding an unbiased objective attitude of mind.

2.3.1.1 Role of an independent auditor in auditing

Throughout this research work, we have defined the auditing concept in general and presented the importance of a quality audit on financial statement presentation and its benefits to investors and the company as a whole. This particular topic in this research work deals with the role or functions of an independent auditor in auditing in general. It also indicates the impact the role of an independent auditor has on the financial statement of a firm or industry. An article submitted by the American Institute of Accountants in Deloitte collection (American Institute of Accountants, 1960) indicates the duties and function of an independent auditor in the analysis of financial statements:-statement of auditing procedure no.30 below:

- Expression of an opinion following the commonly accepted auditing standards: the purpose of the independent auditor's routine review of financial accounts is by presenting a judgement on the fairness of a company's report. He communicates this perspective using the report as a medium. According to commonly known auditing standards, this assessment is conducted per these requirements: he must state in his report that the financial statements are prepared consistent with the generally accepted accounting principles and those principles have been reliably adhered to in the preparation of the current period's financial statements and compared to prior periods. Kueppers and Sullivan, (2010) in an international journal of independent audit matters (why and how), stated that auditors must provide an assessment of a company's financial statements and internal control in financial reporting. The auditor's sole "product" are these reports (American Institute of Accountants, 1960).

- Expression of a professional opinion on examined financial statements: The administration is accountable for accurate and comprehensive financial statements, the safekeeping of assets, and the appropriate documenting of transactions in books of account. The management knows and controls the transactions that should be characterized in the accounts and financial statements; an independent auditor's knowledge is restricted to what he has learned through his investigation. In light of this, the financial statements are the board's representations although they could reflect the independent auditor's influence (an instance where management accepts the auditor’s advice). The independent auditor's role is limited to providing his professional judgment on the financial statements that he has seen.
- Exercising informed judgment in auditing procedures: The independent auditor must decide the auditing processes required for the circumstances in auditing to provide a reasonable foundation for his judgment while sticking to generally accepted auditing standards. His decision-making is rated as an informed judgment of a qualified expert.
- Does not assume the role of another profession in auditing practice: The independent auditor must possess the professional skills necessary to work as an independent auditor, which excludes any skills needed to perform another profession or occupation. For instance, the independent auditor does not represent themselves as an expert in materials, an appraiser, or a valuer when analyzing a firm’s physical inventory. The independent auditor is also permitted to rely on the legal counsel of attorneys in all legal situations even if he is generally educated about questions of commercial law and does not represent himself as an attorney.
- Fraud awareness: Independent auditor is conscious of the danger of scam when conducting the routine inspection; financial statements may be misrepresented due to defalcations and other related anomalies, willful misrepresentation by management, or both. He is aware that any fraud, if sufficiently significant, may have an impact on his judgment of the fairness of the financial statement’s presentation, and his examination, conducted in line with generally accepted auditing standards, takes this possibility into account. Defalcations and other such irregularities, however, are not principally or explicitly intended to be disclosed by the routine examination or auditing process concomitant to the production of an opinion

on financial statements, and their finding cannot be depended upon to do so. Similar to the previous point, though the identification of management's intentional deception is typically more directly related to the goal of the auditing, such examination cannot be relied upon to guarantee its detection. Only when it is obvious that a failure to detect fraud was caused by a violation of generally recognized auditing standards will the independent auditor be held accountable. Planning and carrying out the audit in a way that provides a reasonable level of assurance regarding the absence of substantial misstatements in the financial statements is the obligation of the independent auditor. Because most of the value of what an auditor performs is not readily visible or publicly understood, knowing "how and why an independent audit matters" needs some awareness of the numerous processes that underpin an audit report. (Kueppers & Sullivan, 2010).

- Dependable on prevention and detection of fraudulent activities: It is important to have an effective accounting system with suitable internal controls if fraud prevention and detection are to be successful. To express his opinion, the independent auditor's well-established practice of using tests of the accounting records and related data to assess the sufficiency and effectiveness of the internal control system and of relying on such an assessment and tests to determine the choice and timing of his other auditing procedures has typically proven satisfactory. The identification of any fraud would need an independent auditor to conduct an extensive review, which would be prohibitively expensive. Even then, there is no guarantee that all forms of fraud had been found or that none occurred because some would go undetected, such as unrecorded transactions, forgeries, and collusive fraud. It is generally acknowledged that fidelity bonds and strong internal controls offer more efficiency and are inexpensive.
- Fraud investigation: When an independent auditor's investigation that results in an opinion on financial statements reveals specific circumstances that give rise to his suspicion of fraud, he should determine whether the fraud, if it should exist, might be of a size that would not affect his opinion on the financial statements. If the independent auditor suspects fraud may have taken place that could significantly affect his opinion, he should agree with the appropriate client representatives regarding who, subject to the independent auditor's review, will conduct the necessary investigation to ascertain whether fraud has taken place and, if so, how much of it. The independent auditor should convey the matter to the rightful

client representatives and propose that it be pursued to a conclusion if, he determines that any such fraud could not be so significant as to alter his judgment example, frauds involving speculations from petty funds would typically be of little relevance since the functioning of the fund is limited on the other hand fraud involving "lapping" accounts receivable collections or frauds involving overstatements of inventories might be important.

- The integrity of the auditor: The fact that fraud was later discovered to have occurred during the time frame examined by the independent auditor does not, by itself, prove that he was neglectful. He is not a broker or guarantor, and if his investigation was conducted in line with widely accepted auditing standards and with adequate professional competence and care, then he has met all of the commitments included in his responsibility.

2.3.1.2 Importance of independent audit

An independent audit is a valuable tool in the audit service as it influences the quality of audit reports on a financial statement. Kueppers and Sullivan (2010), stated that under the same establishment of the independent audit process, investors and markets gain from the outcome thus, the audit report, and from the audit process. For example, assuming the top management of a company are aware that an external auditor will be part of the financial auditing process, that knowledge alone will bring some form of discipline among the management to put deterrence of bad practices or behaviors. Further, they mention that an independent audit also strengthens the interaction among three of the four players namely the audit committee, internal audit, and the external audit with management primarily responsible to guarantee fair and accurate financial reporting.

Additionally, the independent audit serves as a core contributor to restoring the confidence of stakeholders in a financial report of a public company. Austin and Herath (2014), also stated that independent audits will ensure public companies conform to professional accounting standards and principles as independent audit concerns are heightened in the aftermath of a downward economy. This also ensures that all players in a business industry function with diligence to ensure trust and growth within a market. Among the importance of independent auditing is to update and advise the company’s management or clients on recent changes in accounting standards and evolution, the complex nature of financial reporting regimes, and what could raise the value of a company to investors. This constant interaction between auditors and company management ensures healthy and accurate financial reporting (Kueppers & Sullivan, 2010).

The auditor's independence, within both reality and appearance, is critical to the integrity of the financial accounts. Adhering to auditor independence guidelines is jointly the duty of management, its audit committee, and the auditor, however, finding an independent auditor with high quality is a critical obligation to audit committee.

While 20th anniversary of SOX (Sarbanes–Oxley Act) approaches, all stakeholders need to preserve auditor independence in both reality and practice. To avoid impairments of independence, auditors and their clients need to meticulously assess the scope of their audit plus all acceptable non-audit commitments which were pre-endorsed by the audit committee (Munter, 2021)[5]. A part of this role is that all stakeholders in the financial reporting network ought to be particularly aware of any sort and extent of additional activity given by an independent auditor. Perhaps, an auditor who offers comprehensive non-audit services to a company with an active mergers and acquisitions business strategy should uninterruptedly check the influence of such businesses, both actual and prospective, on its auditing in order to guarantee that the auditor continues to stay independent of all of its audit clients in fact and practice (Munter, 2021)[6].

2.3.1.3 Threats to independent audit

As we have previously discussed the importance of independent audit in the auditing profession and its necessity for a quality financial report and investor information, there are notable threats to independent audit. Tepalagul and Lin (2014), indicated 4 major threats to independent audits explicitly: client importance, non-audit services, auditor tenure, and client affiliation with audit firms. Auditors may be bound to succumb to clients due influence to maintain significant customers, and clients may obtain more beneficial non-audit services, potentially jeopardizing their independence. Long-term auditor–client relationships and client relations with audit companies nurture familiarity, that could jeopardize auditor independence and audit quality.

[5]https://www.sec.gov/news/statement/munter-audit-2021-10-26
[6]https://www.sec.gov/news/statement/munter-audit-2021-10-26

- **Client Importance**: This concerns the extent of auditors being financially dependent on the client (Tepalagul & Lin 2014). DeAngelo (1981) stated that auditors could be financially attached to their clients through receipt of remuneration when providing service. Again, economically significant customers are given more value in auditor's portfolio or assessment. As a result, an auditor may have a greater inducement to cave into pressure from larger customers, putting at risk auditor independence. Blay (2005) supported that if the client constitutes a relatively large part of an auditor's portfolio, an auditor has the incentive to keep the client so that a source of revenue or profit in the future is guaranteed and hence, the auditor compromises on its independence and act in courtesy of the client. However, this form of threat can be mitigated by the risk of litigation. According to Tepalagul and Lin (2014), a few papers back the idea that high lawsuit risk would decrease the likelihood that the auditors will act in favor of the client.
- **Non-audit services (NAS)**: This service rendered by an auditor to a client is prohibited per SOX (Sarbanes–Oxley) Act of 2002. The regulation is centered on the notion that consequent economic relationship between the auditor and the client could stifle auditor independence, putting audit quality at risk. Ramzan, Ahmed, and Rafay (2020) cited Park, Choi, and Cheung (2017), and noted that overall quality of the audit may be influenced by NAS and audit services provided to the same client. Professionals, on the other hand, say that combining audit and NAS strengthens auditors' knowledge base and information and can lead to a more efficient and successful audit. For instance, Craswell (1999) in his study resulted that non-audit services may not be a major threat to auditor independence. DeFond et al., (2002) in their study concluded that they found no association between non-audit service fees and the auditor's propensity to issue a going concern opinion.
- **Auditor Tenure**: On the validity of auditor tenure on audit independence, are two points of view. According to one theory, as the auditor–client relationship grows longer, the auditor may form a tight bond with the client and become more likely to act in management's favor, lowering audit quality or independence. According to Bell, Causholli, and Knechel (2015) cited by Yakubu and Willaims (2020), they reported tenure elongation reduces audit quality. Compulsory audit partner rotation is supported

by this viewpoint. Another viewpoint is that when auditor tenure increases, auditors have a better understanding of their customers' businesses and build their expertise throughout audits, resulting in superior audit quality. The research on auditor tenure has usually determined that having a protracted career as an auditor does not reduce audit quality or independence. Bratten, Causholli, and Omer (2019) also reports a positive association between lengthier audit firm tenure and financial reporting quality for a bank with a more sophisticated scope.

- **Auditor Rotation**: there have been various arguments by different researchers about audit rotation to audit quality. Some are of the view that auditor partner rotation leads to audit quality whiles those in opposition are of the view that audit firm rotation ensures audit quality. Yakubu and Willaims (2020), quoted various researchers' opinions on auditor partner rotation and audit firm rotation, amongst it includes; Choi, Lim, and Mali (2017) reports that there is low audit quality for mandatory audit firm rotation than for mandatory audit partner rotation, while the Big 4 firm (PricewaterhouseCoopers (PwC), Ernst &Young (EY), Klynveld Peat Marwick Goerdeler (KPMG) and Delloite) provides high audit quality than non-Big 4 if audit firm is rotated. Chen et al., (2008), Chi et al., (2009), Ionescu (2014), and Kaplan and Mauldin (2008) recorded a negative link between the audit partner rotation and audit quality. Bamber and Bamber (2009) found no proof that audit partner rotation increased audit quality in Taiwan. Ernst and Young (2013b) cited in Bamahros et al., (2015) consider a compulsory partner rotation as more effective than compulsory audit firm rotation in reinforcing auditor independence and improving audit quality. Fargher, Lee, and Mande (2008) also establish that the compulsory audit partner rotation of different firms would improve audit quality and decrease manager discretional power.
- **Client affiliation with audit firms**: Tepalagul and Lin (2014), have cited Imhoff (1978) indicating three aspects of auditor–client relationship that could adversely impact independence: (a) the auditor should regard the client as a prospective employer; (b) the auditor's closeness with management could form a barrier between the auditor and the auditor's true employer, the shareholders; and (c) the auditor could struggle to maintain independence in front of former colleagues. Considering these concerns, SOX

mandates one year discontinuity period before the audit partner or other engagement team members may act as financial officers for the client.

According to relationship marketing theory, a long-term relationship between the buyer and vendor has the capability to be useful to both sides (Ye, Carson, & Simnett, 2006). The organizational auditor-client connection is a significant commercial strategy to audit firms to retain existing services and boost cross-selling (Clark and Payne 1995; Huntley 2006). Furthermore, it reduces expenses since setup expenditures may be sustained over a lengthier customer lifetime, and expertise gained throughout the auditing process could lead to knowledge spillovers to non-audit services. As a result, audit firms would be better off maintaining the relationship and supplying non-audit services to their current clients. The advantages are typically in the form of value-added solutions and lower set-up expenses for auditees. This has a significant impact on the auditee's desire to acquire non-audit services from new audit companies (Ye, Carson, & Simnett, 2006).

To add, Ye et al., (2006) stated that the continuity of connection requires sellers to be more educated about their consumers' needs and wants, allowing them to tailor their services to get the greatest results. As a result, it is normal for clients to place more faith in acquiring a value-added solution from suppliers that have shown constant capacity and dependability in previous transactions.

Ye et al., (2006) further stated that prior research in the auditing environment has revealed that the expertise and trust built via long audit firm tenure is crucial to the audit process. This idea naturally extends to non-audit services. Before it can fully contribute value to its business, non-audit services, like other specialized services, necessitates a complete understanding of the client’s activities. Gradually, auditor-client relationship accumulates certain valuables which are critical to the audit firm's competence, and more crucially, it accumulates the client's faith in the audit firm's capacity to give such non-audit services. The latter has a direct impact on the client's readiness to buy non-audit services from new audit companies (Ye, Carson, and Simnett, 2006).

2.3.2 Relationship between independent audit and a quality financial statement

The significance of high-quality financial reports of businesses is emphasized because it increases the trust of business information users and investors. Businesses rely on investors and creditors to obtain funds for their business activities and to prove their credibility, they require the services of an independent auditor. An independent auditor report gives confidence to investors and creditors to not worry about the money that they are investing or lending to a business company. Meaning that a quality independent audit influences a business to produce a financial statement that is following the Generally Accepted Accounting Principles, hence a quality financial report. Also, a quality independent audit report influences the financial performance of a firm by acquiring funds from its investors and creditors.

According to Ali (2019) accomplishing quality financial reports relies on the quality and professional examination of the financial statements of the client companies by the listed independent audit firms. Moreso, businesses require auditing to strengthen the quality of accounting information and to certify the confidence of financial statement users towards the business.

When all factors of an independent audit are put into consideration, it should give an assurance of the quality of financial statement. When financial statement is being audited without independence, there is a likelihood of misappropriation or misrepresentation. However, a financial statement independently audited also does not ensure the accuracy of the financial statement. This means that a quality audit (with due care) performed prevents or reduces restatement. Nonetheless, the magnitude of misstatement of an audited financial statement is anticipated to be lower than that of a non-audited financial statement.

A dissertation by Chan (2012) presented to the State University of New Jersey, supported the above claim that independent audit does not frequently relate positively to a quality financial statement. In his findings, stated the following:

I. "Audited banks had a greater probability of having a restatement. However, these restatements were of lower magnitude than restatements from unaudited banks."

II. "An independent audit does not promote conservatism in financial reporting. More specifically, the results from the study indicate that audited banks are less conservative in recognizing probable loan losses."

III. "Audited banks had higher magnitudes of discretionary accruals in reporting than unaudited banks."

Finally concluded that these results suggest that independent audit could not improve financial reporting quality and call into probing the benefit of independent audit in the absence of regulatory obligations Chan (2012). Similarly, the works of Paydarmansh et al., (2014) hardly determined any positive relationship between quality independent audits and quality financial disclosure. They concluded based on their hypothesis testing by showing that contrary to common belief, there is no link between the quality of audited financial statements and the quality of information in the financial statements of Tehran Stock Exchange businesses.

The findings of a research study by (Ogungbade, Adekoya, & Olugbodi, 2021) reported using audit fees, audit firm size, and audit tenure as proxies for audit quality and a qualitative characteristics of financial statement (relevance) was also used as a determinant for quality financial reporting, and concluded that audit fees had significantly a positive impact on the quality of financial reporting of DMBs in Nigeria. Whereas an insignificant positive impact between audit firm size and audit tenure and quality of financial reports of DMBs in Nigeria was realized.

In research, Ali (2019) referred to a study conducted by Woodland and Reynolds (2003) on the connection between audit quality variables and the financial statements of businesses considering these variables; audit fees, size of the audit firm, tenure of the auditor, expertise of the auditor, and financial performance criteria as audit quality, using regression analysis. Results indicated a significant positive effect of audit fees on financial statements, but no positive relation was identified between financial statements and the other variables.

A research study by Hazaea et al., (2020) on commercial banks in Yemeni indicated that independence of auditors, observing appropriate international standards of auditing that controls the workflow in addition to governance, has significant and positive influence on enhancing financial performance in commercial banks.

Farouk and Hassan (2014) studied the effect of independent audit on financial performance and from the result of their study concluded that there is a significant positive influence of audit quality on financial performance and the relationship between auditor independence and financial performance is positive as well. Implying that audit effort improves by the number of audit fees paid, leading to extra dedication, and supervision on the side of the auditors.

However, in this study, the researcher wishes to establish a positive relationship between independent audits and a quality financial statement. As much as the researcher is determined to establish a positive relationship between the main variables, the researcher reports the exact outcomes of the data should we observe the opposite of what we initially intended.

2.4 Effects of High-Quality Financial Statement on Quality of Independent Audit

Various determinants of quality financial statements go a long way to influence the quality of audits. That is to say that management incentives, complex financial reporting standards, financial policies, internal controls, and political interference either have a direct or indirect impact on audit quality.

Management incentives including audit fees determine how detailed the audit procedure will undertake to produce a quality audit. According to Gaynor et al., (2016), there have been previous studies on management's incentives that investigated auditors' response to audit clients with higher earnings management risk and the consequent effect on audit quality. It went further to refer to Abbott, Parker, and Peters (2006) and according to them, proven by higher audit fees auditors identify audit clients with higher earnings management risk (i.e., income-decreasing discretionary accruals) to have a higher litigation risk.

Gaynor et al., 2016 stated that complex financial reporting standard varies from firm to firm and varies from auditing standards. Some firms adapt to certain standards for instance determining a fair value of an asset. This could pose some complexities to an auditor as it is their responsibility to determine whether the financial statement is per the required standards, thereby affecting (reducing) the quality of the audit. Again, research studies have shown that the upsurge in complexity of accounting estimates and the subjectivity in accounting and auditing standards caused a decline in audit quality (Bratten et al., 2013; Christensen, Glover, and Wood 2012; Griffin 2014; Gaynor 2016). Meaning that audit quality will vary from firm to firm, given that the fair value estimation is subjective. Additionally, the complexity and subjectivity make financial reporting and audit tasks more difficult (Gaynor et al., 2016). Griffin (2014) mentioned that audit client firms with extremely subjective and imprecise fair value estimates have demonstrated alterations in audit quality. However, a negative relationship has been found by studies concerning financial reporting complexity and audit quality (Gaynor et al., 2016).

Moreso, firms adopt certain financial reporting systems which could be because of internal controls. These internal controls include suggestions from internal auditors, management, and audit committee as a measure to improve financial reporting system of the business. According to Gaynor et al., (2016), any inadequacies in the internal controls (Hogan and Wilkins 2008; Mauldin and Wolfe 2014) and the application of information technology (Masli et al., 2010) have an impact on audit quality. This implies that internal controls do have a bearing on audit process and procedure in a client's financial report. It can also be said that if internal controls and information technology are conducted at their best, it will result in high audit quality.

Client-auditor relationship affects the quality of the audit. A friendship tie between an audit committee can affect quality of financial reporting and audit quality executed by an independent auditor. According to Gaynor et al., (2016), research investigations posit that professional roles and social ties are often negatively associated with financial reporting quality in terms of audit committees and higher management (i.e., CEO and/or CFO) (Carcello et al., 2011; Bruynseels and Cardinaels 2014; Cohen et al., 2016). Such relations bring forth conflict of interest and familiarity threats to internal auditors, which may cloud their opinion or judgment when carrying out an audit procedure. This tends to escalate to the audit led by an external or independent auditor, as there is a possibility of the independent auditor lacking certain information in his or her procedures. Hence, reduction in the quality of audits. Gaynor et al. (2016) mentioned that studies have also analyzed how audit quality is been affected by the characteristics of a company's corporate governance mechanisms. Cohen et al., (2011) discover that when auditors believe the CEO has influence over the audit committee, they are more ready to waive an adjustment (i.e., reduced audit quality).

Political and economic uncertainty may affect audit quality. Khan et al., (2016) defined political uncertainty/instability as ambiguities related to the possible changes in government policies. The government's rationale behind changing its policies is, usually, propelled by economic (maximizing welfare) and/or non-economic (political costs and benefits) goals. It is known that political and economic policies influence the business decisions of every firm. It is a requirement by legislation and regulations of a country (Ghana) that every firm pays a tax to the government which contributes to the national revenue for developmental projects in a country (Income Tax Act, Act 896)[7]. However, every country goes through the re-election of new government representatives, and each government either maintains previous policies or changes already existing policies. So, to say, these policies make or break businesses. To support this statement, instance in Ghana for which Benson (2019) in his research on the closure of some financial institutions in Ghana stated that environmental features such as GDP, inflation, exchange rate, political influence, and economic upsets because of recessions were responsible for bank closures. He further stated that several financial institutions could not meet the requirement of the Bank of Ghana (BoG) when the Asset Quality Review exercise was conducted. Hence, using the Act 2016 Act (930) which grants the bank of Ghana the power to liquidate non-performing financial institutions, 9 banks were liquidated to prevent a total collapse of the banking sector (Benson, 2019).

To make it easy for businesses to keep running and not to drain out of business, owners and boards of directors set up alliances with politicians for some consideration on the payment of taxes and other fees. Dai and Ngo (2020) debated that political uncertainty augments the risk associated with the cash flows that an asset is projected to generate. They further mention that adjustments in legislation and regulations along with the changes in government expenditures and taxation rules as some of the plausible reasons behind the effect of political uncertainty on future cash flows. Dai and Ngo (2020) again contend that the legislative and regulatory dynamics could immensely change compliance costs and the changes in government expenditures and taxation rules could unfavorably impact the accounting performance of firms. Hillman (2005) claims that political affiliations with the board of directors can reduce the uncertainty initiated by the external environment through various means, including additional advice and information, preferential access to

[7]https://gra.gov.gh/domestic-tax/tax-types/corporate-income-tax/

resources, and legitimacy, thereby improving the likelihood of a firm’s survival and performance.

Khan et al., (2016) in their study on corporate political connections, agency cost, and audit quality in Bangladesh cited Adhikari et al., (2006), in their data research found that firms with political connections pay tax at significantly lesser effective rates than other firms do. In contrast, a firm with no political ties tend to be more affected by political policies thereby making it difficult for the firm to thrive in the business world. Shleifer and Vishny (1994) explore the relationship between politics and business and contend that politicians attempt to influence firms through subsidies, while firms attempt to influence politicians through bribes.

Bartels and Brady (2003) also mentioned that it is common for businesspeople to stand for political office to be able to use the weaknesses of the institutional environment and extract private benefits from the business. Due to the influence of political uncertainty, investors depend on the opinion of an external auditor to assure the creditworthiness and reliability of a firm. According to Khan et al., (2016), the increased uncertainty makes it difficult for capital providers to recognize the ability of firms to meet their debt commitments. They further argued that businesses may verify their financial statements from external auditors to counter some of the adverse impacts of political uncertainty. Pastor and Veronesi (2013) also noted that political uncertainty increases the risk identified by capital providers.

2.5 Internal controls impact on the quality of the financial reporting

The internal controls, which are otherwise related to the corporate governance of a firm comprised of an audit committee, executive management, and independent auditors (both internal and external), where each sector has a key role or impact on the organizational activity and the firm’s financial report.

- **The Audit Committee (AC)**

According to Alzeban (2019) who did a research study on audit, CEO, auditor quality and quality of financial reporting cited that, AC is seen as adopting a major oversight role through its monitoring of the work of the internal audit function, as well as through the facilitation of advice to management in respect to the implementation of internal accounting control systems and the production of financial statements (Arun et al., 2015; Zalata et al., 2018). Numerous studies by researchers have shown a positive relationship between audit committees and quality financial report. For instance, Zalata et al., (2018) concluded that increase in the number of audit committee members and financial expertise causes a diminish in earnings management. Another study by Bajra and Cadez (2018) obtained results showing that the relationship between AC competencies and quality financial reports is positive. Alternatively, some researchers establish an adverse relation between the audit committee and financial reports quality. Bedard et al., (2004) and Hossain et al., (2011) stated that at least one individual that is member of a company's audit committee with related financial experience showed lower accruals-based earnings management.

- **Executive management**

Executive managers that accounting and finance backgrounds tend to establish some expertise in terms of financial reporting and liaise with CFOs and accountants to ensure transparency and appropriateness in the financial report. CEO with accountancy expertise make the job easy for accountants to understand what is required of them by implementing certain accounting policies demanded due specifications from CEOs. According to Alzeban (2019) financially skilled CEOs are more in tune with the nature of information required by investors and are more likely to strive to offer this so that their companies' worth can be accurately estimated by the market citing Custodio and Metzger (2014). CEOs from such a background can create a culture of transparency as well as influence the decisions made by CFOs Feng et al., (2011). Ownership of some common values in their professional backgrounds facilitates CEO/CFO interaction, enabling their effective collaboration to ensure the formulation of, and adherence to, robust accounting practices Alzeban (2019). Hence, it can be said that the executive manager's expertise influences the quality of a financial report.

- **External Auditor**

External auditors are also expertise in the accounting standards and requirements for a proper financial report. This makes their work easier when conducting an audit procedure to identify any misappropriation and giving assurance as to whether a financial statement is prepared following the required accounting standards. As part of their responsibility, they liaise with audit committee and internal auditors of a firm by acquiring and providing necessary information to obtain a quality financial statement. Cohen et al., (2004) observed that when an external auditor is an integral part of the interactions involving the AC, the internal audit function, the board, and management, a high-quality financial report is reached. This benefits stakeholders and in turn, corporate governance becomes more effective. According to Lin and Hwang (2010), verification from an external auditor brings credibility to the financial statement of a company.

Alzeban (2019) supports the assertion that external auditors also note the requirement imposed by auditing standards for them to liaise with ACs and engage in discussion about the acceptability and quality of the principles implemented in the companies concerned, thereby leading to reduced chances for earnings management and misstatements/omissions in financial reporting. Lin and Hwang (2010) again contend that earnings management practices are mitigated by the engagement of a good external auditor who interacts effectively with the audit committee.

2.5.1 Internal control system and internal audit

Konrath (2002) outlines internal control by directly citing from American Institute of Certified Public Accountants Professional Standards which referred Internal control as "The process effected by an entity's board of directors, management, and other personnel designed to provide reasonable assurance regarding the achievement of objectives in the following categories: (a) Operating control-relating to the effective and efficient use of the entity's resources; (b) financial reporting controls-relating to the preparation of reliable published financial statements; and (c) compliance controls relating to the entity's compliance with applicable laws and regulations." Committee of Sponsoring Organizations of the Treadway Commission (COSO, 2013) quoted by Kewo and Afiah (2017) also explains internal control as "a process, effected by an entity's board of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting, and compliance."

Further, Kewo and Afiah (2017) similarly stated that to accomplish internal control goal, that is (a) the reliability of financial statements, (b) the effectiveness and efficiency of operations, and (c) compliance with applicable laws and regulations, management must apply the components of internal control in all operating activity. Doyle et al., (2007) in their study resulted that weakness in internal control affects the low quality of accruals and adds more evidence of the presence of effective internal control on the quality of accounting information. This relates us to the fact that an internal audit is a component that functions to makes sure that objectives of the internal controls are achieved. Therefore, arguably an internal audit group as part of its function is responsible for the examination and review of the operations of a firm. Per the IIA (1999) "Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance process." Boynton et al., (2006) also mentioned that an internal audit helps the entity to attain its goals through a systematic and orderly approach to assess and enhance the effectiveness of risk, control, and governance processes of the organization.

It posits that internal audit function in a firm is to ensure that the statement of finance is prepared following the set accounting standards and ensure that financial performance of a firm is enhanced. According to Kueppers and Sullivan (2010), an internal audit is a fragment of a company's function but as an institute standard observer, an internal auditor has a responsibility to work independently and objectively and must have an impartial, unbiased attitude and avoid any conflict of interest.

However, for an effective internal audit, it must have the unit's capability to plan, expand organizational productivity, implement internal audit suggestions, evaluate the regularity of outcomes with set objectives and targets, review and improve risk management, monitor and evaluate internal control systems, make recommendations for the competence of internal auditors, adjust the size of the internal audit function, establish rapport with external auditors, and many others (Musah, Gapketor, and Anokye, 2018).

Managerial support and independence of the internal auditor is another form of enhancing and ensuring the efficiency of internal audits. A study by Hazaea et al., (2020) mentions that Dellai and Omri (2016) stated that increasing the efficiency of internal auditing, many aspects contribute to it, of which some are connected to auditors, such as independence and objectivity. Some are linked to senior management, such as offering essential support for auditing management so that the work is conducted effectively. A part of the internal audit is an audit committee (AC), its independency and committee size have validity on the financial performance of a firm. Hazaea et al., (2020) further mentioned that for a consequent enhancement in performance, an entity must acquire individuals who possess various professional experiences (accounting, and finance), which could contribute to solving problems and dealing with the difficulties and challenges encountered in a firm together with appropriate members (audit committee) in the internal audit department could substantially aid in procuring different types of knowledge, opinions, and proposals that are valuable in several institutional investments (Ujunwa et al., (2012); Rahman et al., (2019)).

Corporate governance has its way of impacting the financial performance of an institution through its policies and regulation. However, the internal audit helps the firm to meet its governance responsibility. According to Florea & Florea (2013), boards of directors of institutions get support from internal audit in exercising their governance responsibilities, which leads to enhanced performance and the realization of competition. Ammann et al., (2011) stated that adding value, boosting performance, and improving these companies' economic and statistical efficiency is attributed to appropriately practicing corporate governance within institutions (Hazaea et al., 2020). Kewo and Afiah (2017) mention in their study that corresponding to Cheung and Qiang (2002), internal audit functions will enhance good governance. Consequently, proper internal oversight function is more used and deployed in a concerted effort for the realization of good governance in the public sector to foster transparency and accountability in state finance management. Kewo and Afiah (2017) in the analyses of their study concluded that internal control systems as well as internal audits concurrently affect the quality of financial statements.

Hazaea et al., (2020) in their research study on commercial banks in Yemeni also concluded that the size of the IA department (AC) has a positive effect, but insignificant, and in addition to that, there is little positive effect regarding the regularity of discussions of audit committees and auditors on financial performance of commercial banks.

2.6 History of the Country

Ghana is one of the first west African countries to be colonized by British in Africa and currently having a population of about 32.082 million inhabitants as of August 2022[8]. It was earlier called the Gold Coast, and it is known for its richness in natural resources specifically gold. It is the first Sub-Sahara country to gain its independence in the year 1957 under Dr. Kwame Nkrumah the first president of Ghana. Ghana officially became a republic country on the 1st of July 1960[9].

It is to date famous for its richness in natural resources like gold, cocoa, bauxite, tourist attraction sites, and many others. According to IMF in May 2019, overcoming decades of political upheaval, Ghana formed a stable democracy in the 1990s, and its flourishing economy is driven by exportation of cocoa, gold, and latterly petroleum which aided in reducing the poverty rate from 53 percent in 1991 to 21 percent in 2012[10].

It shares borders with Burkina Faso on north, Togo to the east, and Republic of Côte d'Ivoire to the west. Southern section of Ghana is known for its coastal view of Gulf of Guinea and Atlantic Ocean. It occupies an area of 238,533 square kilometers (92,098 sq mi). Ghana's pre-colonization was known for its great empires and warriors of the Ashanti and the Northern Kingdom. The Capital city of Ghana is Accra and the Ghanaian Cedis is its currency.

Corresponding to the World Bank, Ghana has a GDP of 77.59 billion USD with a growth rate of 5.4% annual change as of 2021[11]. The economic growth of Ghana sectored of 4 mainstreams: agriculture, industry, manufacturing, and the service sector. The developmental shift in sectoral dominance from agriculture to services resulted in economic growth with relative strength in services and industry (Alagidede, Baah, and Nketiah, 2013).

[8] https://www.worldometers.info/world-population/ghana-population/

[9] https://ghanaianmuseum.com/1-july-1960-kwame-nkrumah-became-ghanas-first-president/

[10] https://www.imf.org/en/Countries/GHA/ghana-lending-case-study

[11] World Bank, 2022 https://data.worldbank.org/country/GH

2.6.1 Audit history and financial report in Ghana

Ghana Audit Services' existed dating from the colonial era with defined structure and status, though these have changed considerably in reaction to modern demands. History recounts that governmental auditing began in Ghana in 1910 when the British colonial administration dispatched a group of auditors from the Treasury Office in London to the then Gold Coast colony to audit in the request of funds provided to the colonial governor to administer the colony (Ghana Audit Service)[12]

The struggle for an independent Gold Coast in 1951, led to a political evolution that also influenced external audit arrangements as it heralded a new era. Subsequently, for the first time, the 1954 Constitution of the Gold Coast envisaged the external audit function in the monetary management system of the country. It also established the position of an Auditor-General (A-G) to substitute for the Director-General of the Gold Coast Audit Department[13].

However, the accounting and auditing profession came under the spotlight years ago due to countries experiencing huge financial scandals. In 1960, Ghana became a Republic, and a new Constitution was formed, which brought alterations in the fabric of the nation and institutions, of particular concern was the prerequisite for the appointment and removal of the Auditor-General[14].

Currently, the constitution still uses the 1963 companies code of Ghana to regulate the audit and finance activities of the country. The code states the right and responsibilities of audit services and other mandatory activities. This includes both private and public institutions. An article by Assenso-Okofo, Ali, and Kamran (2011) referred that, there is limited information on accounting practices during the pre-colonial period in Ghana as to when and how accounting practices in Ghana began (Wilks, 1989). Also, the establishment of the Institute of Chartered Accountants of Ghana in 1963 by Act 170 of Parliament is seen as the foundation of formal accounting in Ghana. The main legal framework for financial reporting and auditing for both private and public companies is based on the Companies' Code of 1963, Act 179 (Assenso-Okofo, Ali, and Kamran, 2011).

[12] https://audit.gov.gh/2/11/the-service
[13] https://audit.gov.gh/2/11/the-service
[14] https://audit.gov.gh/2/11/the-service

However, in January 2007 Ghana adopted the IFRS to improve its compliance with international standards as the Ghana Accounting Standards (GAS) is significantly in contrast with the International Accounting Standards (IAS). The conversion from the practice of GAS to IFRS commenced with public companies, banks, and insurance companies. Although, small and medium-sized private businesses together with government ministries, departments, and agencies in the public sector did not begin adoption proceedings until January 2009 (Assenso-Okofo, Ali, and Kamran, 2011).

3. RESEARCH METHODOLOGY

In this section, the research methodology provides an outline of how the thesis was approached and implemented. It further identifies and explains the methods used to evaluate the effect of high-quality financial statements on the quality of independent audits. This chapter uses several techniques to discuss the procedure and activities carried out, the questionnaire design, research design, data collection, sampling strategy, data processing and analysis, and instrument development.

3.1 Research Design and Methodology

"A research design is the arrangement of conditions for the collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy and procedure" quoting Jahoda, Deutch and Cook cited in (Akhtar, 2016). This means that the blueprint or plan guides the researcher in sourcing relevant information for the proposed research. It acts as a binder that holds the entire research work together. It helps to enlighten us about our research population regarding this study and the sampling strategies required to perform this study. Most of all it aids in obtaining answers relating to the problems of this study making the research study relevant.

There are various types of research designs, including descriptive, exploratory, explanatory, and experimental research. However, the researcher used an explanatory and descriptive type of research in this study. The reason being that explanatory research estimates and explains the diverse relation between variables affecting the quality of high financial statements and quality independent audits. while descriptive research helps to study the characteristics of the variable and the condition of the population. As descriptive research answers questions of what, where, how, who, and when (Akhtar, 2016). Thus, using these designs, the researcher aims to understand the determinants of both variables and critically assess the effect of high-quality financial statements to the quality of independent audits.

In addition, a quantitative approach, that focuses on research objectives requiring numerical measurement and analysis, of research was employed.

3.2 Sources of Data

In this section, the different types of data resources that were applied in the study are discussed below. The study employed both primary and secondary sources of data collection.

3.2.1 Primary sources

Upon identifying the target group, the researcher designed a questionnaire as the best instrument to gather the necessary data for this study. A questionnaire is a document containing questions and other items designed to solicit information appropriate to analysis (Babbie, 2004). A questionnaire in quantitative research is designed because it is suitable for obtaining quantitative answers, conducting audience segmentation, quantifying opinions, attitudes, and behaviors, and also explaining a phenomenon.

The researcher designed the questionnaire in English and distributed it to various audit institutions in Ghana. The reason for choosing audit firms is that they best fit the required population to obtain accurate data and answers for the research problem. The measurement tools “questionnaire” used by the researcher to create the questionnaire was adapted from Gaynor et al., 2016 and EdSkills Centre of Finance (ACC 311-19-03-Internal Control Questionnaire (Different Examples), 2020)[15], combined, and adjusted to fit the purpose of this research.

The questionnaire was developed considering the research problem the study wants to address supported by literature reviews made. The data instrument used by the study was a structured and closed-ended questionnaire. A total of 41 close-ended questions were created in sections to make respondents understand the nature of and obtain accurate data on each independent variable factor to establish its influence on the dependent variable. The close-ended question includes the demography, sex, educational level, company name, and position, which are multiple choices.

The most widely used questionnaire method was employed in this research questionnaire, thus using the Likert Scale. To what extent certain accounting and audit practices are employed in the institution and their impact is measured using Likert Scale.

[15]https://youtu.be/0s75zRdC0sI

The researcher considered the most common scale, which is a 1 to 5 scale as 1 = strongly disagree, 2 = disagree, 3 = I do not know(neutral), 4 = agree, and 5 = strongly agree, in designing the Likert scale questionnaire.

The Likert scale consisted of five sections which are; Educational level and experience (skills and knowledge, years of experience, educational qualification, and lack of training), Internal control system (suggestion from audit committee and corporate governance, internal audit, and management incentive/interference), Complex financial reporting Standards (research and technology, accounting standards and software), Client-auditor relationship (friendship tie, and conflict of interest), and Political and economic uncertainties (government fee and regulation taxes and subsidies).

3.2.2 Secondary sources

The secondary sources including books, journals, statistics, and pamphlets were obtained in various literature reviews to provide additional information where needed. Also published government journals or documents, websites, newsletters, and reports were examined to provide the study with a strong and extensive background.

3.3 Sampling Strategies and Procedures

Ghana has 16 regions and has a total of 336 licensed audit firms as of December 2022 according to Institute of Chartered Accountants Ghana (ICAG)[16]. The data showed that 302 firms are in the Greater Accra region and 14 in Ashanti region, 3 in Central region, 2 in Eastern region, 6 from Northern region, 5 from Brong-Ahafo region, 3 in Western region, and 2 from Upper West region. This study's target population area is the Greater Accra region and the Ashanti region. The main purpose for creating this sampling frame is due to the population size and the convenient environment for the researcher to gather data necessary for its research. The other regions are remote areas and the number of audit firms there is minimal.

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[16]https://icagh.org/wp-content/uploads/2022/10/2022-List-of-Licensed-Firms-in-Good-Standing-12.09.2022.pdf

3.3.1 Determination of sampling technique and sample size

The size of the sample is determined per the sort of population that will be sampled. From the above, the researcher's total population is 316 audit firms. Thus 302 from the Greater Accra region and 14 from the Ashanti region. Having a finite population, the researcher computes the sample size using the frequently preferred method of determining a sample size with the desired estimation of precision (Kothari, C. R. 2004).

Therefore, the researcher uses the formula below by estimating a sample size with a confidence level of 95% and an acceptable error of 8%. The Z score under the normal distribution table is 1.96 at a 95% confidence level. Using the most conservative sample size, we take 50% as the estimation of success proportion i.e., p= 0.5, and q as the estimation of failure proportion (q=1-p) i.e., q=0.5. Hence, we determine the sample size per the information given with the formula:

$$n= \frac{z^2 * p * q * N}{e^{2(N-1)} + z^2 * p * q}$$

where,

n= sample size required

N= number of populations=316

p= estimated success proportion=50%

q= estimated failure proportion=50%

e= margin of error=8%

z= confidence level=1.96 of 95% confidence

$$n=\frac{1.96^2 * 0.5 * 0.5 * 316}{0.08^2(316-1) + 1.96^2 * 0.5 * 0.5}$$

$$n= 101.98 \approx 102$$

The sample size (n) is 102, which is 5% more than the finite population. Meaning that the researcher will be using finite population correction factor since the sampling will be done without substitution. Using the finite population correction formula:

$$n=\left(\frac{z^2 * p * q * N}{e^{2(N-1)} + z^2 * p * q}\right)\sqrt{\frac{N-n}{N-1}}$$

$$n = 102 * \sqrt{\frac{316-102}{316-1}}$$

$$n = 84.07 \approx 84$$

From the above, 84 audit firms were chosen randomly from a total population of 316 based on the size of each region. So, the samples were selected randomly by employing simple random sampling which is the commonly used probability sampling method. The table below shows the sample size randomly selected from each region:

Table 3.1 *Audit firm sample size used (Source: Author's construct)*

Audit firm region	Population size	Random sample units
Greater Accra	302	70
Ashanti	14	14
Total	316	84

3.4 Reliability Test

Reliability is the measure of the degree of consistency of an instrument in a study. The instrument is said to be reliable if it produces the same/similar result when measured repeatedly. Reliability can be paralleled with the stability, consistency, and dependability of a measuring tool. Using the sample of people, the test is repeated on two events and the results obtained by calculating a reliability coefficient are then compared (George and Mallery,2006). An instrument is dependable if the alpha (α) value is more than .70 (Hair et al., 2013.). The researcher assessed the credibility of the questionnaire applying Cronbach's Alpha. The result revealed that the education and experience scale with 10 items (α=0.892), internal control system scale with 12 items (α=0.803), client-auditor relationship scale with 7 items (α=0.843), complex accounting standards scale with 6 items (α=0.735), and political and economic scale with 6 items (α=0.769), and total scale with 41 items (α=0.939). Reliability results are summarized in the table below.

Table 3.2 *Result of the reliability test (Source: Author's construct)*

Reliability Statistics	
Cronbach's Alpha	No. of items
.892	10
.803	12
.843	7
.735	6
.769	6
.939	41

3.5 Data Analysis and Presentation

A quantitative analysis method was employed once the data was gathered using a questionnaire. The researcher commenced with the use of descriptive analysis and inferential analysis after. Kothari (2004) mentioned that the key intent of descriptive research is to describe the present state of circumstances as it exists. Meaning that it permits the researcher to present the existing state of a situation. It includes collecting data that describes the circumstances, which is organized and presented using graphs, charts, and tabulation methods. Consequently, the data collected through the questionnaire were tallied and frequencies, mean values, median, percentages, and standard deviation values were applied.

According to Kothari (2004), the inferential analysis approach is to create a database from which to infer characteristics or relationships of the population. Thus, examining the relationship that exists between the variable of a population through the data gathered with the tools of analysis and justifying how the independent variables might cause a change in a dependent variable. Therefore, the study utilized Spearman order rank correlation and the ordinal regression technique in its analysis. The researcher used the Spearman order rank correlation analysis which is mostly used for testing linear associations among variables that are not normally distributed. The correlation coefficient lies between ±1, where correlation of +1 implies a perfect positive linear relation between variables and a correlation of -1 indicates a perfect negative linear relation amongst variables. The coefficient of correlation lies between +1 (positive relationship), through 0 (indicating no relationship between two variables) to -1 (negative relationship). Correlation is used in this research to test variables of high-quality financial statements and quality-independent audits to observe if they are positively or negatively related.

3.6 Variable Measurement

This section is concerned with reasons why the researcher chose certain variables to analyze and assess the effect of high-quality financial statements regarding the quality of independent audits.

3.6.1 Dependent variable

Here, quality independent audits are used as the dependent variable measured in terms of effective audit process. Amongst other frameworks for audit quality, the Council, (2008) added that an effective audit process contributes positively to audit quality.

3.6.2 Independent variable

The independent variables include; education and experience (EE), internal control system (IC), client-auditor relationship (CA), complex accounting standards (CS), and political and economic uncertainties (PE).

Palmer et al., (2013) stated that the competencies that should be possessed by the auditor/accountant as the bearer of the financial statements of the knowledge, skills, and abilities for entry-level accountants are: communication skills, interpersonal skills, general business knowledge, accounting knowledge, problem-solving skills, information technology, personal attitudes and capabilities, and computer skills. Wood et al., (2013) stated component of internal controls set forth in the framework is essential to achieving the objective of reliable financial reporting. A study by Kewo and Afiah (2017) concluded that an internal control system influences quality of financial statements.

In addition, the risk-driven assessments by the PCAOB (Peecher et al.,2013) suggested by research strengthen the relationship between financial reporting complexity (accounting standards) and the quality of financial reporting system and audit quality. These findings imply that there is an association with financial reporting complexity and the quality of financial reporting systems and audit quality (Gaynor 2016). Again, according to (Archambault and Archambault, 2003; Goodrich, 1986) it is determined that political systems have influence on business environment, the economy, as well as the accounting practices of a country. Also, an improved accounting system creates a favorable business climate for domestic and foreign investments. This leads to economic growth, access to long-term financing, and the development of the securities markets (ROSC, 2005). This means arguably the kind of economic system of a country determines the quality of financial information disclosure.

Meanwhile, a financial report is also said to be quality if it is reliable and credible. However, an article by Berisha, (2021) accordingly mentioned that Anders Mardell, in his view agrees with the preceding research and their study results that as the association between the auditor and the client develops over a long period the auditor is likely to get more complacent. He went further to state that in the course of the relationship, the auditor feels more attached and closer to the company and becomes more relaxed and less independent in his audit engagement. This, therefore, affects the opinion of the auditor relating to the reliability and credibility of a financial statement.

3.7 Model Specification

Considering the conceptual relationship explained above and regarding the data collected, which is categorical in nature, the study adopts the Spearman order rank correlation analysis and the ordinal regression technique that is using Statistical Package for Social Science (SPSS).

This regression model is used when the variables are not normally distributed. Thus, since the variables under consideration are not normally distributed as per the Shapiro-Wilk test for normality, the study performs a generalized ordinal regression to determine the impact of education and experience, internal control system, complex accounting standards, client-auditor relationship, and political and economic uncertainties on quality of independent audit (effective audit process) in Ghana. The generic and operational forms of the ordinal regression model are shown in equations 1 and 2.

$$\mathrm{Lj(x)} = \mathrm{logit(fj(x))} = \mathrm{log(fj(x)/(1-fj(x))} \text{ -------------eq1}$$

$$\mathrm{Log}(\frac{P_{AP}}{1-P_{AP}}) = \alpha_j - \beta_1\mathrm{EE} - \beta_2\mathrm{IC} - \beta_3\mathrm{CA} - \beta_4\mathrm{CS} - \beta_5\mathrm{PE} \text{ ---------------eq2}$$

Where Log $(\frac{P_{AP}}{1-P_{AP}})$ is the log of the odds in favour of being on a high level of the audit process, EE is the education and experience, IC is the internal control system, CA is the client-auditor relationship, CS is the complex accounting standards, and PE is the political, economic uncertainties and $\beta_1 - \beta_5$ are the ordinal regression coefficients to be estimated.

NB: The model parameters are subtracted to capture the log odds of an event occurring measured by the difference between the log odds of the event occurring and the log odds of its not occurring.

3.8 Research Ethics

In this stage of data collection, there is a possibility of having an ethical dilemma concerning the information of participants. According to Creswell (2009), many issues arise during this stage of research and as researchers await data collection, they need to respect the participants and the sites for research. Research ethics includes the application of fundamental ethical principles to a range of subjects involving scientific research. A research code of ethics is a group of principles and standards which ensure ethical practices as well as guide the researcher in research operations.

In pursuit of practicing ethical principles, the researcher in this study does not put its participants at risk and also respects the right of the participant by certifying that they participate in the activity voluntarily without coercion of any kind. Again, obtaining the approval and consent from authorities to study participants in the given research sites. The researcher also guaranteed the confidentiality of the personal data of participants if any and assured non-disclosure of information given by participants that might harm them during data collection. As well as their consent to disclose any harmful information in this process.

Also, at the analysis and interpretation stage of this study, the researcher considered the practice of good ethics in protecting the anonymity of individuals, responsibilities, and events in this study and discarding data after a given period, so that it does not fall into the hands of the wrong person. The researcher here is also committed to providing an accurate account of the data analyzed and describing the participants with respect and without using discriminating language. Again, the researcher is committed to reporting the research and its findings in detail, fully and honestly, and avoiding falsifying or suppressing information.

4. DATA PRESENTATION, ANALYSIS, AND INTERPRETATION OF RESULTS

A statistical format used to analyze and present the data is Statistical Package for the Social Science (SPSS) to ease data analysis. Commencing with the presentation of the descriptive analysis then followed by the inferential analysis presentation, which is the regression and correlation analysis to show effects of high-quality financial statements with regard to quality independent audits.

Data was gathered from audit firms in Greater Accra and Ashanti regions of Ghana 84 questionnaires were distributed across these regions. As stated above 70 were distributed in Greater Accra and 14 were distributed in the Ashanti region. However, 80 out of 84 of these questionnaires were retrieved. Meaning that 66 were retrieved from Greater Accra, 13 from the Ashanti region, and 1 from non-respondent. This represented 95% of the response rate of the survey. Regionally representing 82.5% of Greater Accra and 16.3% of Ashanti.

Again, the general information of the data for analysis is presented then followed by inferential analysis (regression and correlation analysis).

4.1 General Information

This section contains the parameters used in collecting data for the analysis, describing the sample population. The characteristics of these parameters are used considering the high-quality financial report relating it to quality independent audit, where inferential analysis is used later in the analysis. This section serves as a base to commence the analysis.

4.1.1 Gender distribution of auditors in the audit firms

Figure 4.1 below illustrates the distribution of gender in audit firms in Ghana. The green color represents the female population sample showing 32.5% and the blue represents the male population sample of 66.3%, and the yellow represents 1.3% of the respondent unaccounted for. This indicates that the larger population sample is dominated by male and fewer female representatives.

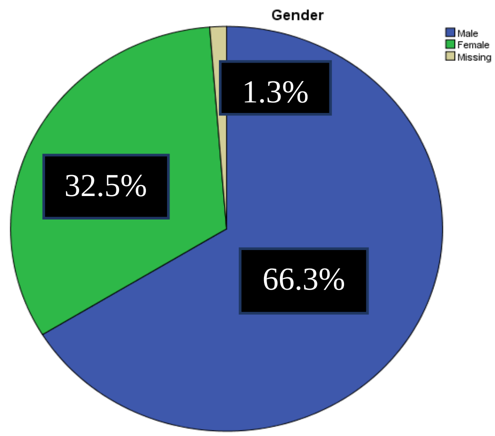

Figure 4.1 *Gender distribution of independent auditors (Source: Author's Construct)*

4.1.2 Age distribution

A workforce distribution in terms of age varies from country to country. A country is likely to have a large of its workforce of old aged and other countries with more youth than the old aged. In the case of Ghana, the workforce population is dominated by youth ranging from less than 30 to 30-40 years of age. From figure 4.2 demonstrated below, 38.8% represents ages less than 30, 45.0% represents ages from 30-40, 15% represents ages from 40-50, and 1.3% represents a no-respondent. This means that a considerable number of the workforce is dominated by the young workforce in the audit industry.

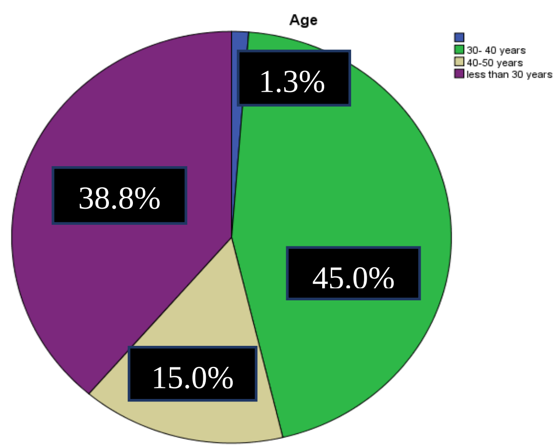

Figure 4.2 *Age distribution of independent auditors (Source: Author's Construct)*

4.1.3 Educational qualification

Figure 4.3 reveals that 60% of the sample size have a bachelor’s degree, 35% have a masters and above, 3.8% have a diploma, and again 1.3% are non-respondent. This means a larger sample size which is 60% and 35% is considered to indicate the sincerity of the question since they can comprehend the questions and are appropriate to enter the labor market.

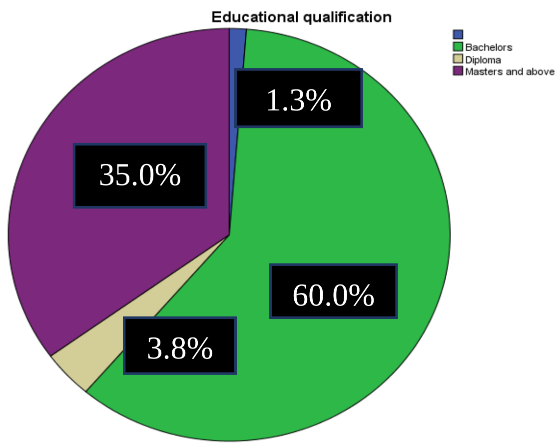

Figure 4.3 *Educational qualifications of independent auditors (Source: Author’s Construct)*

4.1.4 Educational specialization

The figure below shows the percentage and the number of auditors' educational qualifications. From the figure, more of the sample size specialized in accounting representing 46 respondents at 57.5%, 13 respondents specializing in auditing at 16.3%, 12 respondents specializing in business administration at 15.0%, 8 respondents specializing in economics at 10.0%, and 1.3% of non-respondent.

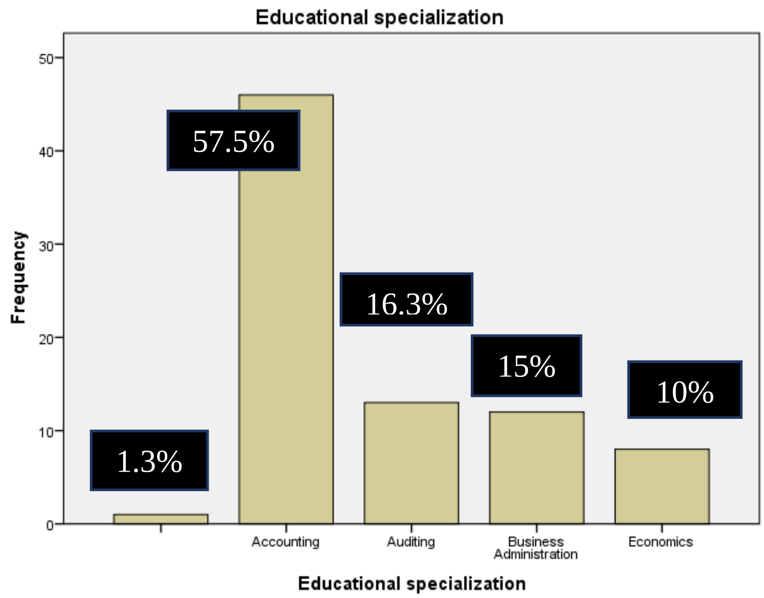

Figure 4.4 *Educational specializations of independent auditors (Source: Author's Construct)*

4.1.5 Position

Below is a figure showing the position of respondents in the various audit firms in the regions. The figure shows that 35 respondents are accountants at 43.8%, 31 respondents are assistant auditors at 38.8%, 13 respondents are chief auditors at 16.3%, and 1.3% represent non-respondents. This demonstrates the diversity of expertise.

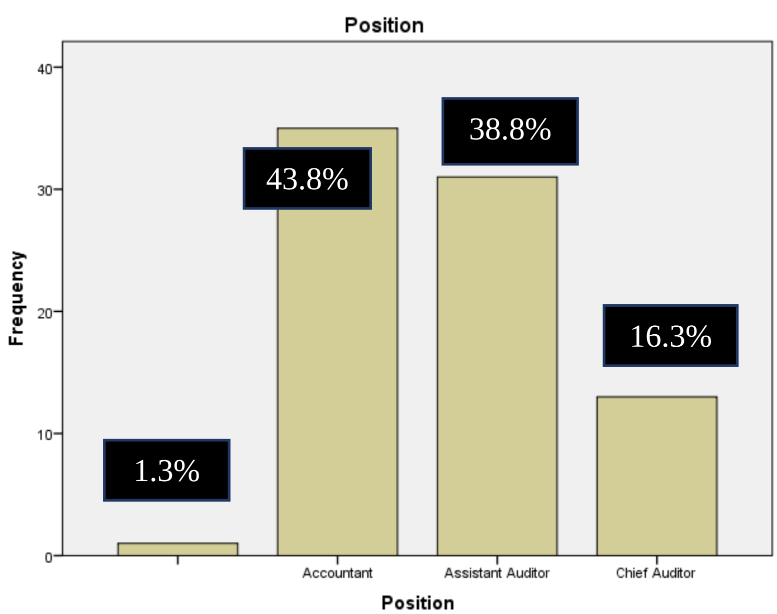

Figure 4.5 *Position of independent auditors (Source: Author's Construct)*

4.1.6 Practical experience

The figure below shows the number of years of experience of respondents in the area of independent auditing. The figure shows that 12.5% of the sample have 10-15years experience, 3.8% have 15-20years of experience,1.3% have 20 years and above experience, 33.8% have 5-10 years of experience, 47.5% have less than 5 years of experience and 1.3% of non-respondent. This discrepancy in accounting and auditing experiences.

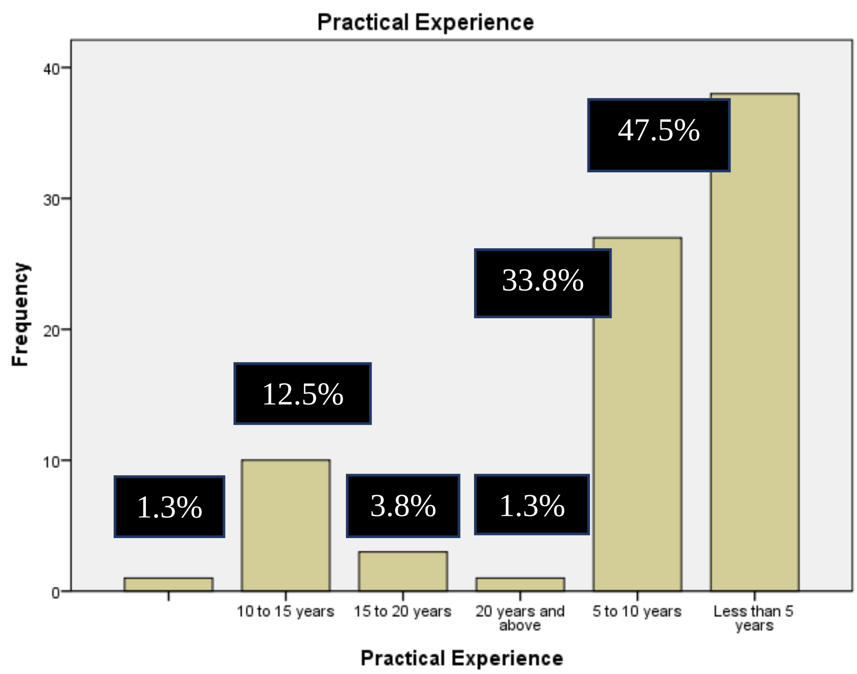

Figure 4.6 *Practical experience of independent auditors (Source: Author's Construct)*

4.1.7 Region

The figure below indicates the number of respondents received from every region. From the figure, 82.5% of the sample was retrieved from Greater Accra and 16.3% from the Ashanti region out of the total of 84 questionnaires distributed. However, 1.3% represented non-response and this means that a total of 80 of the questionnaires (95%) were retrieved which is an adequate representation of the data collected for the analysis.

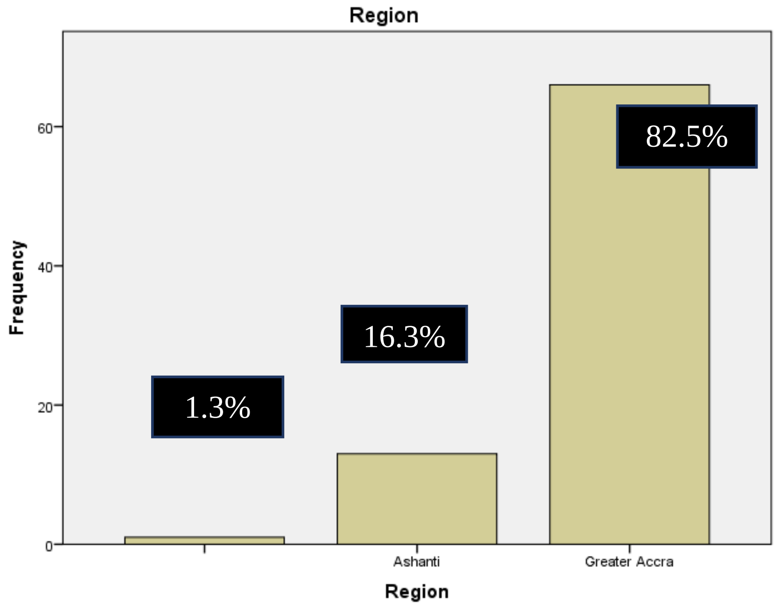

Figure 4.7 *Region sample of audit firms (Source: Author's Construct)*

4.2 Analysis of Variables

Independent auditors of various firms in Greater Accra and Kumasi were asked questions regarding the variable that tends to influence the quality of financial statements which affect the quality of independent audits. These questions were arranged and structured in sects which includes education and experience, Internal control systems, client-auditor relationship, complex financial reporting standards, and political and economic uncertainties. Measures of central tendency particularly percentage, median, and standard deviation were used to analyze the results. The median and mean were graded according to Al Rubaish (2010 p. 465), criteria of measurement, where 4 - 5 are regarded as a good indicator, 3 as acceptable performance, and 1- 2 as a weak performance which requires improvement, and the mean of 3.6 and above is high, 2.6 -3.6 is acceptable and less than 2.6 is weak which also requires improvement.

4.2.1 Education and experience

In the discipline of accounting and auditing, education and experience have an impact on both reports of a firm. This section focuses on the necessary activities such as skills, knowledge, training, expertise, and others which are considered to influence the performance and quality reports of the entity. Per the above, the central tendency of the results was measured from the sample obtained from respondents of various audit firms shown in the table below:

Table 4.1 *Education and experience of independent auditors (Source: Author's construct)*

Education and Experience	**Strongly Disagree**	**Disagree**	**Neutral**	**Agree**	**Strongly Agree**	**Mean**	**Median**	**Standard Deviation**
The entity adequately plans for staff needs.	1.3%	10.0%	18.8%	48.8%	20.0%	3.77	4.00	.933
The entity employs sound hiring, including a background investigation, where appropriate.	3.8%	13.8%	17.5%	36.3%	27.5%	3.71	4.00	1.134
Employees are adequately trained to meet their objectives.	2.5%	3.8%	28.7%	37.5%	26.3%	3.82	4.00	.958
Workers with more years of working experience are more skilled and knowledgeable than workers with less working experience.	2.5%	10.0%	13.8%	33.8%	38.8%	3.97	4.00	1.086
The educational level of accountants affects their work performance in terms of skills and knowledge.	2.5%	7.5%	20.0%	41.3%	27.5%	3.85	4.00	1.001
Sufficient training given to audit partners and staff on audit, accounting, and where needed specialized industry issues.	2.5%	5.0%	30.0%	36.3%	25.0%	3.77	4.00	.973

{**Table 4.1 (continue)** *Education and experience of independent auditors*}

The partners and staff have the necessary competence/skills.	1.3%	6.3%	21.3%	51.2%	18.8%	3.81	4.00	.863
Audit engagement partners are actively involved in the planning, risk assessment, review, and revising of work done.	0%	11.3%	20.0%	37.5%	30.0%	3.87	4.00	.979
Staff perform detailed work and exhibit sufficient knowledge and experience during On-site audit work.	0%	2.5%	23.8%	46.3%	26.3%	3.97	4.00	.784
Arrangements exist to update auditors on existing matters and provide them with training in new auditing, accounting, or regulatory compliance.	0%	8.8%	21.3%	38.8%	30%	3.91	4.00	.936

Table 4.1 shows the relationship between education and experience and quality independent audit. According to the table above, for the first question, 11.3% of the respondent either strictly disagree or just disagree that the firm adequately plans for the needs of staff, while 18.8% of the respondent are not certain indicating that managerial plans for the firm relating to the information of staff needs are not privy to the staffs of the firms. On the other hand, 48.8% agree that the needs of the staff are adequately planned and 20% strongly agree, indicating that the need of the staff is met. For a clearer understanding, the determination of central tendency using the median, mean and std deviation were employed. The median of 4.00 indicates a very good response that the staff needs of the firms are adequately planned and provided and also important in achieving a quality report.

The mean of 3.77 indicates that the mainstream of the sample respondent either agree or strongly agree that staff needs are adequately planned.

Moreso, for sufficient training given to audit partners and staff on audit, accounting, and, where needed, specialized industry issues, 7.5% strictly disagree or just disagree with the statement, while 30% show uncertainty by neither agreeing nor disagreeing with the statement represent quite a number of the respondents. However, 36.3% of the respondent agree that sufficient training is given and 25% of the respondents consent to the statement. Per the central tendency using the above, the median is also 4.00 which is a good indicator that the respondent is inclined to the statement and the mean of 3.77 also shows that more of the respondents agree or strongly agree. Again, with a standard deviation of 0.973.

The partners and staff have the necessary competence/skills, and 7.6% of the respondent either absolutely disagree or just disagree with the statement. 21% show neutrality, thus neither agree nor disagree. Indicating indecision about partners and staff having the necessary competence or skills. Whereas most of the respondents representing 51.2% agree and 18.8% strongly agree. The central tendency using the median again is 4.00 indicating a positive response, with a mean of 3.81 which is very high and good, and a standard deviation of 0.863.

Audit engagement partners are actively involved in the planning, risk assessment, review, and revising of work done. 11.3% disagree with it and 20% of the respondents are unsure about it, whether or not it is true or false. 37.5% of the respondents consent and 30% strongly agree. Indicating that most of the various independent audit firms work to ensure a quality audit procedure. It also indicated a mean of 3.87% which is very high and a median of 4.00, which is good, and a standard deviation of 0.979.

Staff perform detailed work and exhibit sufficient knowledge and experience during On-site audit work. 2.5% disagree and 23.8% of the respondents are uncertain about the statement. However, a larger number of the respondent agree and 26.3% strongly agree. Per the central tendency of measurement, this gives us a higher mean of 3.97, a median of 4.00 which is good, and a standard deviation of 0.784.

4.2.2 Internal control system

An effective internal control system improves the performance of the commercial operation of a company. In this regard, we focus on how policies, audit committees, and management incentives/interference influence the quality of independent audits. The sample of response obtained was measured using the central tendency mentioned above.

Table 4.2 *Internal control system on independent audits (Source: Author's construct)*

Internal Control System	**Strongly Disagree**	**Disagree**	**Neutral**	**Agree**	**Strongly Agree**	**Mean**	**Median**	**Standard Deviation**
The entity has a specific accounting standard it follows in preparation for its accounts.	0%	2.5%	15.0%	43.8%	37.5%	4.18	4.00	.781
The entity has sufficient written statements and explanations of its accounting policies and procedures.	0%	8.8%	18.8%	38.8%	32.5%	3.96	4.00	.940
The entity's accounting guidelines and procedures are detected and quickly communicated to the relevant personnel.	0%	7.5%	26.3%	30.0%	35.0%	3.94	4.00	.965
The entity has established policies for developing and modifying accounting systems and control procedures.	0%	10.0%	26.3%	31.3%	31.3%	3.85	4.00	.988

{**Table 4.2***(continue) Internal control system on independent audits}*

Often does management make changes in the chosen financial reporting standard	5.0%	33.8%	26.3%	17.5%	16.3%	3.06	3.00	1.180
These changes affect the enhanced quality characteristics of a financial report.	1.3%	12.5%	30.0%	32.5%	22.5%	3.63	4.00	1.015
Managers interfere in the preparation of financial reports.	10.0%	23.8%	31.3%	20.0%	13.8%	3.04	3.00	1.192
Management interference with financial reports affects the audit process.	6.3%	10.0%	26.3%	30.0%	26.3%	3.61	4.00	1.170
Insufficient information disclosure by management affects the quality of audits and auditors' opinions.	5.0%	6.3%	16.3%	31.3%	40.0%	3.96	4.00	1.137
Managers are open to new suggestions and improvements from the audit committee or an independent auditor.	1.3%	7.5%	17.5%	46.3%	26.3%	3.90	4.00	.928
An internal controls system is effective to ensure a quality financial report.	1.3%	5.0%	10.0%	43.8%	38.8%	4.15	4.00	.893

*{**Table 4.2**(continue) Internal control system on independent audits}*

Audit committees function independently without management interference.	2.5%	10.0%	25.0%	33.8%	27.5%	3.75	4.00	1.056

Table 4.2 shows the response of the selected sample size relating to the internal control system and quality audit. In addition to the function of an independent auditor, having knowledge and skills in accounting is very important. Hence from the table above, the entity has sufficient written statements and explanations of its accounting policies and procedures, none of the respondents strongly disagree with it although 8.8% of them disagree. 18.8% are sure of it so they neither agree nor disagree with the statement. On the other hand, 38.8% and 32.5% agree and strongly agree respectively with the statement. Giving us a central tendency of measurement mean of 3.96 which is very high and a positive indication, a median of 4.00 which is good, and a standard deviation of 0.940.

Policies for developing and modifying accounting systems and control procedures are established by the entity. Again, none of the respondents strongly disagree with the statement although 10% of them disagree. Meanwhile, 26.3% are indecisive and neither disagree nor agree. Contrary, 31.3% agree and the same percentage of 31.3% strongly agree with the statement. on the central tendency of measurement, a mean of 3.85 is very high which is positive, a median of 4.00 is also a good indication, and a 0.988 standard deviation.

Management interference with financial reports affects the audit process. Of the response, 16.3% either strictly disagree or just disagree with the statement. While 26.3% are doubtful about the statement, hence they neither agree nor disagree. However, 30% and 26.3% agree and agree respectively with the statement. it also recorded a mean of 3.61 which is high, a median of 4.00 which is also a good indication, and a standard deviation of 1.170.

Insufficient information disclosure by management affects the quality of audits and auditors' opinions. From the table, we observe that 5% of the respondent strongly disagree with the statement and 6.3% disagree. 16.3% of the respondent are uncertain and therefore do not disagree nor agree with the statement. although 31.3% and 40% of the respondent agree and strongly agree accordingly, representing a larger sample size. In regard, a mean of 3.96 indicates high performance, a median of 4.00 which is good, and a standard deviation of 1.137.

Managers are open to new suggestions and improvements from the audit committee or an independent auditor. Regarding this question, a higher percentage is recorded in a positive response with 46.3% agreeing and 26.3% strongly agreeing with the statement. meanwhile, 17.5% of the respondent are uncertain and a total of 8.8% either disagree or strongly disagree. This indicated a high mean of 3.90, a median of 4.00, and a standard deviation of 0.928.

Audit committees function independently without management interference. We observe in the table that 12.5% of the respondent either strongly disagree or disagree, and 25% of them also are uncertain about the statement. However, 33.8% of them agree the audit committee of the client's businesses work independently from management, while 27.5% of the respondent strongly agree. This indicated a higher record of a mean of 3.75, a median of 4.00, and a standard deviation of 1.056 as a measure of the central tendency.

4.2.3 Client-auditor relationship

The relationship built between management and the independent auditor has effects on both the auditor and the client. In the previous chapter, we elaborated on it by emphasizing its impact on quality audits. By focusing on the friendship tie and the problem of conflict of interest, the questionnaire was designed to obtain a response from independent auditors in this regard. The response obtained was measured using the central tendency of measurement stated above.

Table 4.3 *Client-auditor relationship on independent audits (Source: Author's construct)*

Client-auditor Relationship	**Strongly Disagree**	**Disagree**	**Neutral**	**Agree**	**Strongly Agree**	**Mean**	**Median**	**Standard Deviation**
The presence of a conflict of interest among auditors impacts the objectivity of the audit process.	6.3%	5.0%	11.3%	36.3%	40.0%	4.00	4.00	1.144
Maintaining close family ties with clients can serve as a threat to independent audits.	2.5%	8.8%	5.0%	30.0%	52.5%	4.23	5.00	1.062
Family relation of engagement partners with a client affects the independence of the audit.	3.8%	5.0%	8.8%	30.0%	51.3%	4.22	5.00	1.058
The hold of financial interest in client business by a member of an audit team affects the audit process and auditors' opinion.	1.3%	5.0%	17.5%	26.3%	48.8%	4.18	4.00	.984
The long tenure of audit service to a client can build friendship between the client and auditor which could affect the independence of the audit.	3.8%	6.3%	15.0%	37.5%	36.3%	3.97	4.00	1.062

{**Table 4.3** *(continue)Client-auditor relationship on independent audits}*

The long tenure of audit service causes auditors to be familiar with clients' operations, making audit procedures easy.	2.5%	2.5%	15.0%	41.3%	37.5%	4.10	4.00	.928
The long tenure of audit service makes it easy for auditors to identify any misappropriation or fraudulent activity in the client's operational environment.	3.8%	8.8%	26.3%	35.0%	25.0%	3.70	4.00	1.066

Table 4.3 shows the response obtained from the survey concerning client-auditor relations. The question "The presence of a conflict of interest among auditors impacts the objectivity of the audit process" 11.3% of the respondent either strongly disagree or disagree with the statement while 11.3% of them are indecisive. Besides that, the majority of the respondents from the table show that 36.3% agree and 40.0% strongly agree with the statement. this measured a central tendency of a high mean of 4.00, a median of 4.00, and a standard deviation of 1.144.

Family relation of engagement partners with a client affects the independence of audits. Regarding this statement, we observe from the table that a total of 8.8% of the response received either strongly disagree or agree. Meanwhile, 8.8% of the respondents are indecisive. They neither disagree nor agree. However, 30% of the respondent agree and 51.3% strongly agree. This recorded a central tendency of a high mean of 4.22, a median of 5.00 which is an affirmation, and a standard deviation of 1.058.

"The hold of financial interest in client business by a member of an audit team affects the audit process and auditors' opinion". From the table, a total of 6.3% of the sample size either strongly disagree or just disagree with the statement, while 17.5% of them show uncertainty. In variably 26.3% agree and 48.8% strongly agree. This is also a central tendency of measurement in terms of a high mean of 4.18, a median of 4.00, and a standard deviation of 0.984.

From the table the statement "The long tenure of audit service causes auditors to be familiar with clients' operations, making audit procedures easy", the sum of 5% of the sample size either strongly disagree or disagree. While 15.0% of the respondents neither disagree nor agree with the statement. Contrary, 41.3% agree, and 37.5% strongly agree. Measuring a central tendency of a high mean of 4.10, a median of 4.00, and a standard deviation of 0.928.

4.2.4 Complex accounting standards

As presented in the earlier literature review chapter, a complex accounting standard affects the quality of financial reports which tends to impact the quality of independent audits. We focus on the technological software and the comprehension of complex accounting standards adopted. Below shows, the response gathered from the sample population.

Table 4.4 *Complex accounting standards (Source: Author's construct)*

Complex accounting standards	**Strongly Disagree**	**Disagree**	**Neutral**	**Agree**	**Strongly Agree**	**Mean**	**Median**	**Standard Deviation**
Standards that are complex to comprehend and implement affect the quality of the financial report.	0%	5.0%	17.5%	40%	36.3%	4.09	4.00	.865
Accounting software is designed to ease the implementation of these standards.	0%	6.3%	21.3%	40.0%	31.3%	3.97	4.00	.891

{**Table 4.4** *(continue) Complex accounting standards}*

Navigation of new technological software for accounting data entries difficult to follow a set accounting policy.	3.8%	10.0%	38.8%	35.0%	11.3%	3.41	3.00	.954
The adaptation of new technologies makes accounting standards complex to implement.	6.3%	21.3%	2.5%	25.0%	13.8%	3.19	3.00	1.122
The accounting principles used by the organization are overly conservative or aggressive.	2.5%	13.8%	38.8%	28.8%	15.0%	3.41	3.00	.994
The accounting principles conform to industry practice.	1.3%	5.0%	20.0%	31.3%	41.3%	4.08	4.00	.971

Table 4.4 demonstrates the response obtained regarding complex accounting standards on quality financial statements. The question "Standards that are complex to comprehend and implement affect the quality of the financial report" none of the respondents strongly disagreed but 5% of them disagree. While 17.5% of the respondents were undecisive, 40% agreed and 36.3% strongly agreed with the statement. this measured a central tendency of a high mean of 4.09, a median of 4.00, and a standard deviation of 0.865.

Accounting software is designed to ease the implementation of these standards. In this question, none of the respondents strongly disagreed but 6.3% of them disagree. However, 21.3% of them could not decide and remained neutral. 40% of the respondent agreed and 31.3% strongly agreed. With the central tendency, a high mean of 3.97, a median of 4.00, and a standard deviation of 0.891 are recorded.

Navigation of new technological software for accounting data entries difficult to follow a set accounting policy. The response showed that 3.8% strongly disagreed and 10% disagreed. On the other hand, 38.8% were uncertain and remained neutral, again 35.0% of the respondents agree and 11.3% strongly agree. A central tendency of a low mean of 3.41, a median of 3 which is acceptable but needs improvements, and a standard deviation of 0.954.

4.2.5 Political and economic uncertainties

This section focuses on how political and economic uncertainties have an impact on quality independent audits and auditors. Areas on taxes and government policies or changes in governments were questioned to obtain responses on its impact on quality audits or auditors. The table below shows the response collected from the survey.

Table 4.5 *Political and economic uncertainties (Source: Author's construct)*

Political and economic uncertainties	**Strongly Disagree**	**Disagree**	**Neutral**	**Agree**	**Strongly Agree**	**Mean**	**Median**	**Standard Deviation**
Taxation policy change influences business management decisions.	3.8%	6.3%	12.5%	40.0%	36.3%	4.00	4.00	1.050
A new taxation policy affects the financial reporting policy of an entity.	1.3%	11.3%	21.3%	33.8%	31.3%	3.84	4.00	1.043
Changes in governmental regulations protect the independency of an independent auditor.	3.8%	15.0%	43.8%	22.5%	13.8%	3.28	3.00	1.012
Change in government regulation improves the quality of audits.	2.5%	11.3%	47.5%	28.8%	8.8%	3.30	3.00	.882

*{**Table 4.5** (continue) Political and economic uncertainties}*

Changes in economic policy influence auditors' opinion in the period of audit.	10.0%	10.0%	30.0%	33.8%	15.0%	3.34	3.00	1.164
A change in regulation on audit tenure and audit fees affects the quality of independent audits.	5.0%	7.5%	22.5%	37.5%	26.3%	3.73	4.00	1.094

The table shows the responses to the various questions. In the question "Taxation policy change influences business management decisions" 3.8% strongly disagreed and 6.3% of them disagreed. Meanwhile, 12.5% were uncertain and chose neutral, and 40.0% of the respondents agreed. Also, 36.3% strongly agreed which documented a mean of 4.00, a median of 4.00, and a standard deviation of 1.050.

Changes in economic policy influence auditors' opinion in the period of audit. This question showed that 20.0% of the respondents either strongly disagree or disagree while 30.0% remain neutral and uncertain. 33.8% of them agreed and 15.0% strongly agreed. It measured a central tendency of a mean of 3.34, a median of 3.00, and a standard deviation of 1.164.

A change in regulation on audit tenure and audit fees affects the quality of independent audits. Here, 12.5% of the respondents either strongly disagree or disagree while 22.5% remain uncertain by neither disagreeing nor agreeing with the statement. However, 37.5% agreed and 26.3% strongly agreed with the statement. This measured a central tendency of a high mean of 3.73, a median of 4.00, and a standard deviation of 1.094.

In addition, there was no response to the survey from 1 respondent representing 1.3% of the total response gathered.

4.3 Results

This section represents the outcomes of the ordinal regression model specified in Chapter 3. It also reports the results of the Spearman order rank correlation and Shapiro-Wilk test of normality.

4.3.1 Normality test

Since the sample size is less than 100, we employ the Shapiro-Wilk test of normality. The null hypothesis underlying this test is the fact that variables are normally distributed. The result of this test is reported in Table 4.6. From the table, it can be noted that the p-value of the s-w statistic for the majority of the variables is less than at least 0.1 leading to the dismissal of the null hypothesis of normality. Thus, a non-parametric rather than a parametric analysis is necessary. In this regard, the study adopts the Spearman order rank correlation and the ordinal regression analysis instead of the Pearson correlation and the linear regression analysis.

Table 4.6 *Normality Test (Source: Author's construct)*

	Shapiro-Wilk		
	Statistic	df	Sig.
AP	.961	79	.016
EE	.973	79	.093
IC	.990	79	.820
CA	.900	79	.000
CS	.968	79	.043
PE	.961	79	.018

4.3.2 Correlation Analysis

The correlation coefficient between education and experience (EE) and audit process is 0.613 indicating a strong positive relationship between education/experience and audit process. The implication could be that highly educated or experienced personnel can deliver quality audit processes. Also, the correlation between the internal control system (IC) and the audit process is 0.556, indicating a positive link exists between the internal control system and quality audit process. This could imply that effective internal control system which entails effective management, and a well-structured internal audit committee can ensure a quality audit process. Similarly, the client-auditor relationship (CA) and audit process indicated a positive correlation of 0.662. Thus, the correlation between client-auditor relationship and audit process is a positive strong relationship. This indicates that the relationship that is built over the years between an auditor and the client has impacts on quality of audit delivered by the auditor, hence auditor rotation is recommended. Audit process and complex accounting standards (CS) also indicated a positive correlation of 0.658. This shows a strong positive relationship between complex accounting standards and the audit process. Implying that comprehension of accounting standards is essential in auditing and modern technological software programmed based on underlying accounting standards has an impact on the quality audit process. Lastly, political and economic uncertainties show a positive correlation with the audit process by 0.602. This also indicates strong positive relationship between political and economic uncertainties and the audit process. It implies that should the government change regulations on the period of audit tenure and audit fee of auditors can influence the quality of the audit process (considering the client type).

On the other hand, amongst the independent variables, the table reveals there is a positive correlation between them. However, between education and complex accounting standards, a low correlation of 0.496 is observed. Similarly, a lower correlation is shown between the client-auditor relationship and complex accounting standards at 0.433. Political and economic uncertainties and education and experience also showed a low correlation of 0.458. Lastly, PE and IC presented a low correlation of 0.497.

Table 4.7 *Spearman Order Rank Correlation Matrix of the Variables (Source: Author's construct)*

	1	2	3	4	5	6
1 AP	1.000					
2 EE	.613**	1.000				
3 IC	.556**	.567**	1.000			
4 CA	.662**	.593**	.535**	1.000		

*{**Tables 4.7** (continue) Spearman Order Rank Correlation Matrix of the Variables (Source: Author's construct)}*

5 CS	.658**	.496**	.562**	.433**	1.000	
6 PE	.602**	.458**	.497**	.532**	.545**	1.000

4.3.3 Regression analysis

Table 4.8 presents an ordinal regression analysis of variables that, where an increase in a variable being a higher-level lead to an increase in the audit process (AP). All factors being equal, from the table below:

- For a unit increase in education and experience (EE), the log odds of being on a higher level of AP increase by 1.034. This is significant at the 5% level. Therefore, EE is a significant positive predictor of the quality audit process in Ghana. Demonstrating that EE is consistent with the a priori expectation of the study.
- Similarly, a unit increase in the internal control system (IC) is associated with a 0.399 increase in the log odds of being on higher level of AP in Ghana. The finding where internal control system positively affects AP is consistent with the a priori expectation of the study, however, it is not statistically significant.
- A unit increase in the client-auditor relationship (CA) is associated with a 1.638 increase in the log odds of being higher level of AP. This is statistically significant indicating that CA is a positive significant predictor of AP in Ghana. However, this contradicts the a priori expectation of the study.
- A unit increase of complex accounting standards (CS) leads to a 1.713 increase in the log odds of being higher level of AP. This is Significant showing that CS is a positive predictor of AP in Ghana. This is contrary to the a priori expectation of the study.
- Again, a unit increase in political and economic uncertainties (PE) leads to a 0.995 increase in the log odds of being on higher level of AP. This is statistically significant indicating that PE is a positive predictor of AP in Ghana. Demonstrating that this is consistent with the a priori anticipation of the study.

In addition, the pseudo-r-square shows that about 74.3% of the variation in AP can be explained by the independent variables (EE, IC, CA, CS, and PE) jointly.

Table 4.8 *Ordinal Regression Estimates (Source: Author's construct)*

Dep. Var: AP	Coefficients	Exp (β)
EE	1.034** (0.479)	2.811
IC	0.399 (0.507)	1.490
CA	1.638*** (0.417)	5.145
CS	1.713*** (0.455)	5.546
PE	0.995*** (0.399)	2.706
Number of observations	79	
Pseudo R-squared	0.743	

*P<0.1, **P<0.05, ***P<0.01
Standard errors in parenthesis

The exponential Beta (Exp(β)) is nothing, but the anti-log of the ordinal regression coefficients evaluated at the mean value of each independent variable. This gives the odd ratio that reflects a multiplicative change in the odds of being in higher category on the dependent variable for every one-unit increase in the independent variable.

In this regard, EE has an odd ratio of 2.811 implying that the odds of being on higher level of AP by about 2.811 times as EE increases by a unit. Similarly, IC has an odd ratio of 1.490 suggesting that the odds of being on higher level of AP by about 1.490 times as IC increases by a unit. Also, CA has an odd ratio of 5.145 suggesting that the odds of being on higher level of AP by about 5.145 times as CA increases by a unit. CS has an odd ratio of 5.546 indicating that the odds of being on higher level of AP by about 5.546 times as CS increases by a unit. Lastly, PE also has an odd ratio of 2.706 implying that the odds of being on higher level of AP by about 2.706 times as PE increases by a unit.

Table 4.9 *Summary of hypothesis test results*

Hypothesis	Accept	Reject
H_1 Complex accounting standards has a negative impact independent audit.		✓
H_2 Political uncertainty has positive impact on independent audits.	✓	
H_3 Internal controls system has positive relationship with independent audits.	✓	
H_4 Client-auditor relationship has a negative effect on independent audits.		✓
H_5 Educational level and experience of professionals has a positive effect on independent audits.	✓	

5. CONCLUSION AND RECOMMENDATION

Quality financial statements and quality independent audits are important components of capital market efficiency. So, this study aims to add insight to already-existing literature on the impact of high-quality financial statements on quality independent audits. It is also a fact that this study will support and contradict other literature findings. Therefore, to obtain the results above, the mean, median, Spearman order rank of correlation, and ordinal regression analysis were employed and also to conclude with the hypothesis and objectives of this research. Lastly, the study provides suggestions relevant to professional entities in this field of study, government bodies, and academic researchers.

5.1 Conclusions

High-quality financial statements measured in terms of education and experience, internal controls system, complex accounting standards, client-auditor relationship, and political and economic uncertainties were found to averagely meet the expectation. Their association with the dependent variable measured in terms of the audit process indicated a strong impact on the quality of independent audits. Based on the results, it is observed that:

- Educational level and experience with a coefficient of 1.034 indicated a significant positive relationship with the quality audit process. Thus, the fifth hypothesis is accepted. Meaning that a unit increase in education and experience leads to an increase in the quality audit process. This probably could be as the result of educational nature of Ghana, where the number of professionals in accountancy and auditing is increasing due to the demands of companies to meet international standards. Also, most audit firms are privately owned by individuals but monitored by ICAG increasing the chances of audit independence in Ghana. This is consistent with the study conducted by Zahmatkesh and Rezazadeh (2017) concerning audit features and audit quality in Iran. In their research findings, they concluded that auditors with more experience and professional competencies tend to perform an analytical review, and knowledge regarding the organizational theory, auditing, and public sector, as well as accounting which leads to an increase in the quality audit. The outcome of this study is also coherent with the research of Ocak (2018) and Bröcheler et al., (2004). Meanwhile, this is contradictory to the study conducted by Furiady and Kurnia (2015) in Indonesia which demonstrated in their findings concluded that work experience has no impact on audit quality, however, auditor competency affects audit quality.

- An internal control system with a coefficient of 0.399 indicated an insignificant positive relationship with the audit process. Thus, the third hypothesis is accepted. However, this means that a unit increase in the internal control system may not significantly lead to a unit increase in the quality audit process. This could be a result of less staff on the audit committee and the inefficiency of committee members. Meanwhile, other studies posit that internal control system leads to quality financial reporting. This is supported by a study conducted in Indonesia by Sari et al., (2017), in their findings they resulted that the internal control system affects the financial reporting system, and it is consistent with the findings of Asiligwa and Rennox (2017). On the contrary, a study by Oussii and Taktak (2018) revealed that the internal control quality is significantly and positively associated with the audit committee's involvement in reviewing the internal audit program and results, IAF competence, internal audit quality control assurance level, and follow-up process. Again, Lee et al., (2010) find that a higher number of IC personnel increases the audit fee, implying that the firms interested in the effective operation of the IC system require auditors to perform their audit procedure strictly, resulting in a higher audit fee, which usually leads to higher audit quality (Higges and Skantz 2006; Blankley et al., 2012). This is supported by the findings of Kim (2021) and Lin et al., (2011).
- Similarly, the client-auditor relationship resulted in a coefficient of 1.638 representing a significant positive relationship with the audit process. This rejects the fourth hypothesis. It also means that a unit increase in a client-auditor relationship leads to an increased audit process, hence independent audit quality. This is consistent with a study conducted in Sweden by Aamir and Farooq (2011), concluding that a long-term auditor-client relationship is beneficial if the risk of auditor independence and the risk of complacency which might develop during the relationship can be avoided or minimized. On the other hand, this is contradicting the findings of the studies mentioned in the hypothesis development stage of this study.
- Complex accounting standards also resulted in a coefficient of 1.713 indicating a highly significant positive relationship with the audit process, thus independent audit quality.

This means that the first hypothesis of the study is rejected. Thus, a unit increase in complex accounting standards will cause an increase in audit quality. Similarly, Ghosh et al., 2016 in their study used goodwill and other special charges as an indicator of complex accounting estimates on audit quality and concluded that positive relationship exists between goodwill and audit quality. In a sense, goodwill fair-value estimation is complex and for this reason, a higher audit fee is charged. Hence, a quality audit. This is backed by the findings of George et al., 2013 and Bepari and Mollik (2015).

- Lastly, political and economic uncertainties resulted in a coefficient of 0.995 dictating a significant positive relation with the audit process (audit quality). This accepts the second hypothesis developed. Also, it indicates that a unit increase in political and economic leads to a unit increase in audit quality. This is in accordance with the study conducted by Yun and Chun (2021), whose results suggested that economic policy uncertainties have a positive association with audit efforts during a significant political uncertainty situation. Again, it is also consistent with the study by Farooq et al., (2020) concluded by documenting that there is significant effect by the exposure to political uncertainties regarding the preference for external audit. This is also backed by Wahab et al., (2009) concluding that political-connected institutions have a positive correlation with audit quality. Similarly, it is consistent with the findings of Gul (2006).

5.2 Recommendations

The government and audit associations (ICAG) should encourage students more on the study of audits in educational institutions as well as practical experience. This could increase the level of quality audits and independence of auditors irrespective of non-big four or big four audit firms and also to some extent reduce the expectation gap in Ghana. Moreover, the internal control system of businesses in Ghana needs much improvement, where management dutifully provides the needs of employees in all departments and most of all does not interfere/influence the activities of the financial department unless necessary. This ensures independence, integrity, objectivity, and transparency of financial statements and hence quality independent audit report.

Again, auditors must strictly follow the ethical principles in regard to relationships with their clients, likewise management of businesses to be audited. This helps to avoid any unfavorable relationship that will compromise the work of the independent auditors. Executives of businesses should also be reasonable in regard to setting accounting standards and estimations to make understanding and audit process easy, and also ensure full disclosure of information necessary in the financial statements. Independent auditors must also conduct complete due diligence, especially with respect to entities that are politically connected due to their riskiness. They also must dutifully adhere to regulations and policies set by ICAG and the government, especially regarding auditor turner as well as audit fees for enhanced quality of independent audit service in Ghana.

For future researchers, this study only used audit process as a measure of quality independent audits, and therefore encourages that other determinants should be used in the study of independent auditors.

Policymakers need to pay attention to and should encourage entities to be responsive to surveys and scientific research activities, as these studies help to develop solutions to the problems in our society. Hence, improving the working environment, credibility, and investor satisfaction and at large a better Ghana.

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APPENDIX

INFORMED CONSENT FORM

This is a research study titled “The Impact of High-Quality Financial Statements on The Quality of Independent Audits. A Study of Independent Auditors in Ghana**”** and has a scientific purpose. The study is conducted by Jamilatu Adamu, and its results will reveal if quality financial statements have an impact on quality auditing. This study will focus on education and experience, internal control systems, client-auditor relationship, complex accounting standards, and political and economic uncertainties, and will shed light on its development.

Your participation in this study is on a voluntary basis.

- In line with the purpose of the study, data will be collected from you by completing the following questionnaire (type/types of research).
- You do not have to write your name or give any information that will reveal your identity / the names of the participants in the research will be kept confidential.
- The data collected within the scope of the research will only be used for scientific purposes, they will not be used outside the purpose of the research or in any other research, and if necessary, they will not be shared with others without your (written) consent.
- You have the right to review the data collected from you if you wish.
- The data collected from you will be protected by ethical methods and will be archived or destroyed at the end of the research.
- There will be no questions/requests that may disturb you during the data collection process(s). However, if you feel uncomfortable for any reason during your participation, you can leave the study whenever you want. In the event that you leave the study, the data collected from you will be removed from the study and destroyed.

Thank you for taking the time to read and evaluate the volunteer participation form. You can direct your questions about the study to Social Sciences Institute/Jamilatu Adamu from Anadolu University Accounting Department at *****

Researcher Name: Jamilatu ADAMU

I consent to the use of the information I have provided for scientific purposes, knowing that I can withdraw from the study entirely of my own free will if I wish.

(Please give this form to the data collector after completing and signing it.)

Participant Name and Surname:

Signature:

Date:

Socio-Demographic Information

Directions: For the following, please check only one response for each item.

1-Gender

☐ Male ☐ Female

2- Age

☐ Less than 30 years ☐ 30 to 40 years ☐ from 40 to 50 years ☐ more than 50 years

3-Educational qualification

☐ Diploma ☐ Bachelors ☐ Masters and above

4- Educational specialization

☐ Accounting ☐ Business administration ☐ Economics

☐ Auditing

Others (Please specify) ……………………………………….

5-Position

☐ Accountant ☐ Chief auditor ☐ Assistant auditor

Other (Please specify) ………………………………………………

6- Practical experience

☐ Less than 5 years ☐ 5 to 10 years ☐ from 10 to 15 years ☐ 15 to 20 years ☐ 20 years and above

7- Company Name

……………………………………………………………………………….

Please indicate the extent to which you agree or disagree with the statements below according to the scale:

1-Strongly Disagree **3- Neutral** **5- Strongly Agree**

2- Disagree **4- Agree**

No.	**EDUCATION AND EXPERIENCE** **This section is related to the education and experience of workers on the quality of audits.**	1	2	3	4	5
1.	The entity adequately plans for staff needs.					
2.	The entity employs sound hiring, including a background investigation, where appropriate.					
3.	Employees are adequately trained to meet their objectives.					
4.	Workers with more years of working experience are more skilled and knowledgeable than workers with less working experience.					
5.	The educational level of accountants affects their work performance in terms of skills and knowledge.					
6.	Sufficient training is given to audit partners and staff on audit, accounting, and, where needed, specialized industry issues.					
7.	The partners and staff have the necessary competence/skills.					
8.	Audit engagement partners are actively involved in the planning, risk assessment, review, and revising of work done.					
9.	Staff perform detailed work and exhibit sufficient knowledge and experience during On-site audit work.					
10.	Arrangements exist to update auditors on existing matters and provide them with training in new accounting, auditing, or					

	regulatory compliance.					
INTERNAL CONTROL SYSTEM **This section is related to the firm's internal controls on the quality of financial reports and audits.**		**1**	**2**	**3**	**4**	**5**
11.	The entity has a specific accounting standard it follows in preparation of its accounts.					
12.	The entity has sufficient written statements and explanations of its accounting policies and procedures					
13	The entity's accounting guidelines and procedures are detected and quickly communicated to the relevant personnel.					
14.	The entity has established policies for developing and modifying accounting systems and control procedures.					
15.	Often does management make changes in the chosen financial reporting standard					
16.	These changes affect the enhanced quality characteristics of a financial report.					
17	Managers interfere in the preparation of financial reports.					
18.	Management interference with financial reports affects the audit process.					
19.	Insufficient information disclosure by management affects the quality of audits and auditors' opinions.					
20.	Managers are open to new suggestions and improvements from the audit committee or an independent auditor.					
21.	An internal controls system is effective to ensure a quality financial report.					
22.	Audit committees function independently without management interference					

CLIENT-AUDITOR RELATION **This section focuses on how client-auditor relation affects independent quality audit.**		**1**	**2**	**3**	**4**	**5**
23.	The presence of a conflict of interest among auditors impacts the objectivity of the audit process.					
24.	Maintaining close family ties with clients can serve as a threat to independent audits.					
25.	Family relation of engagement partners with a client affects the independence of audits.					
26.	The hold of financial interest in client business by a member of an audit team affects the audit process and auditors' opinion.					
27.	The long tenure of audit service to a client can build friendship between the client and auditor and can affect the independence of the audit.					
28.	The long tenure of audit service causes auditors to be familiar with clients' operations, making audit procedures easy.					
29.	The long tenure of audit service makes it easy for auditors to identify any misappropriation or fraudulent activity in the client's operational environment.					
COMPLEX ACCOUNTING STANDARDS **This section is about how complex accounting standards affect financial reporting quality.**		**1**	**2**	**3**	**4**	**5**
30.	Standards that are complex to comprehend and implement affect the quality of the financial report.					
31.	Accounting software is designed to ease the implementation of these standards					
32.	Navigation of new technological software for accounting data entries difficult to follow a set accounting policy.					

33.	The adaptation of new technologies makes accounting standards complex to implement.					
34.	The accounting principles used by the organization are overly conservative or aggressive.					
35.	The accounting principles conform to industry practice.					
POLITICAL AND ECONOMIC UNCERTAINTIES **This section concerns how political and economic uncertainty affects financial reporting and audit quality.**		**1**	**2**	**3**	**4**	**5**
36.	Taxation policy change influences business management decisions.					
37.	A new taxation policy affects the financial reporting policy of an entity.					
38.	Changes in governmental regulations protect the independency of an independent auditor.					
39.	Change in government regulation improves the quality of audits.					
40.	Changes in economic policy influence auditors' opinion in the period of audit.					
41.	A change in regulation on audit tenure and audit fees has an impact on the quality of independent audits.					

Thank You!

Evrak Kayıt Tarihi: 15.12.2022	Protokol No: 456308

Tarih: 27.12.2022

ANADOLU ÜNİVERSİTESİ

SOSYAL VE BEŞERÎ BİLİMLER BİLİMSEL ARAŞTIRMA VE YAYIN ETİĞİ KURULU

KARAR BELGESİ

ÇALIŞMANIN TÜRÜ:	Yüksek Lisans Tez Çalışması
KONU:	Sosyal Bilimler
BAŞLIK:	Yüksek Kaliteli Mali Tabloların Bağımsız Denetimlerin Kalitesi Üzerindeki Etkisi: Ganada'daki Bağımsız Denetçilere Yönelik Bir Araştırma
~~PROJE/~~TEZ YÜRÜTÜCÜSÜ:	Prof. Dr. Seval SELİMOĞLU
TEZ YAZARI:	Jamilatu ADAMU
ALT KOMİSYON GÖRÜŞÜ:	-
KARAR:	Olumlu