Audit committee roles, responsibilities and characteristics in Ghana: the perception of ‘agency stakeholders’

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Abstract: This paper examines the perception of firms’ major ‘agency stakeholders’ – external auditors, investors and senior management – of Ghanaian listed companies on the roles, responsibilities and desirable characteristics of an effective corporate audit committee (AC). Employing a survey approach to this study, the paper documents that ‘agency stakeholders’ in Ghana associate the role and responsibilities of AC more with firms’ internal audit function and processes than any other unit which AC has oversight responsibilities. It also demonstrates that corporate stakeholders do not attach the same level of importance to the roles, responsibilities and characteristics of AC. The paper, therefore, highlights the need for stakeholders to be aware of and consider the new dynamics of AC functions and processes with equal importance to promote effective practice.

Keywords: audit committee; corporate governance; GSE; Ghana Stock Exchange; internal audit; stakeholders; agency; perception; board of directors; emerging markets; effectiveness; roles and responsibilities; characteristics.

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1 Introduction

The nature and scope of audit committee (AC) activities continually engage the attention of regulators, the accounting profession and the global business community due to its importance to business operations. Indeed, the establishment of audit committees is recognised as a key principle in a good corporate governance (CG) system (Samaha et al., 2012, 2015; Crişan and Fülöp, 2014). The roles, responsibilities and the characteristics of an effective AC, however, have been a highly debated issue in CG research. The literature on AC documents that the roles and responsibilities of AC have evolved over the past decades (Lin et al., 2008; Lary and Taylor, 2012). Prior studies on AC functioning associate its effectiveness with characteristics such as composition, size, members’ qualifications, and actual operations (Bliss et al., 2007; Stewart and Munro, 2007; Akhtaruddin and Haron, 2010; Rainsbury et al., 2009; Alzeban and Sawan, 2015; Miko and Kamardin, 2015).

Despite the increasing recognition of the importance of AC and the seeming consensus on their roles and responsibilities, the effectiveness of AC operations in practice is still a very controversial issue. Limited studies have examined AC responsibilities and effectiveness in actual practice, and the findings of the few existing studies are inconclusive (Zaman et al., 2011). Moreover, existing studies on AC functioning has done little in describing the extent to which firms operationalise AC functioning (Rupley et al., 2011). The issue of whether ACs are effective in discharging their responsibility remains insufficiently understood, perhaps, due to the paucity of empirical research on the operationalisation of AC functioning in practice. To date, only a few studies have directly examined the actual operations and activities of AC in practice (Lary and Taylor, 2012; Kamel and Elkhathib, 2013; Lin et al., 2008; Rupley et al., 2011).

Lin et al. (2008) contend that whether the AC system can effectively function also depends upon the stakeholders’ acceptance of the AC system, in addition to their perceived characteristics for efficacy. They further explain that the acceptance of AC system by corporate stakeholders depends on the knowledge or consensus that they form on the roles, responsibilities and characteristics of ACs. The knowledge of AC operations among various stakeholders of firms may, thus, influence their views of AC operations as well as their acceptance of the AC system in practice, and hence, the overall effectiveness of the system. Various stakeholders of firms are documented to have different views and attach different importance to the roles and responsibilities of AC, particularly, in countries where the requirement for AC formation is new – usually emerging economies (Rupley et al., 2011; Lin et al., 2008; Lary and Taylor, 2012). It is, therefore, imperative
to understand how different parties of a firm’s governance mechanism perceive the roles, responsibilities and attributes of an effective AC functioning to establish consensus stakeholder knowledge and acceptance to improve AC practices.

Developing countries, specifically African countries, are not adequately equipped to implement the type of CG found in developed countries due to their structural characteristics (Assenso-Okofo et al., 2011; Aboagye-Otchere et al., 2012). As a result, they are more vulnerable to the consequences of ineffective CG mechanisms, hence, the need for an assessment of the practicality of AC functioning in practice in these countries, including stakeholders’ awareness and acceptance of the system. Nonetheless, developing countries’ studies on AC mostly focus on the effect of AC system on corporate reporting, disclosure practices, firm performance, and other corporate practices (see Aboagye-Otchere et al., 2012; Bliss et al., 2007; Johl et al., 2012; Miko and Kamardin, 2015; Madi et al., 2014; Othman et al., 2014; Li et al., 2012; Assenso-Okofo et al., 2011; Muniandy and Hillier, 2015). Studies on stakeholders’ understanding and perception of AC phenomenon and operations to indicate the extent of stakeholder involvement in ensuring AC effectiveness is yet to be explored and advanced.

From the above discourse and to fill this gap in existing literature, this study investigates the roles, responsibilities and characteristics of AC as perceived by key stakeholders, which we term ‘agency stakeholders’, of listed companies on the Ghana Stock Exchange (GSE) by addressing the following research questions:

• What are the general perceptions of key corporate stakeholders in Ghana about the roles and responsibilities of an AC?

• What do key corporate stakeholders in Ghana perceive as the desirable characteristics of an effective AC?

Adapting the survey design employed by Lin et al. (2008) and with a questionnaire response rate of 57.9%, we provide evidence that the ‘agency stakeholders’ of Ghanaian listed companies are familiar with the operations of AC system. Moreover, they perceive the strengthening of internal audit and control systems and promotion of good CG as the principal roles of the AC. These stakeholders are also of the view that AC is responsible mainly for the monitoring, supervising and coordinating of the internal and external audit function including internal control systems. Furthermore, they suggest that for ACs to be effective in their roles, the committee must be independent and have the relevant expertise. However, we also show that the different stakeholders do not attach the same level of importance to the roles, responsibilities and characteristics of AC, perhaps because the acceptance of AC system and its practical operation is still emerging in Ghana.

Our study contributes to the literature by incorporating factors established in the extant literature and current CG regulations into a survey of AC functioning and effectiveness and provides evidence on the role of stakeholders in ensuring the effective functioning of AC in emerging economies. By examining the perception of AC functioning among the ‘agency stakeholders’ identified, this study adds to the knowledge of researchers, regulators and firm BOD about the current understanding of the main CG players on AC functioning and operations. The findings of this study also provide useful information to SEC and other capital market regulatory bodies in Ghana as they explore possibilities of taking into account the domestic circumstances to provide a comprehensive and effective CG framework and procedure. This study, to the best of our
knowledge, is the first perception study of AC practices in the sub-region. It may, thus, serve as a foundational paper or framework for subsequent studies on enhancing CG effectiveness in emerging economies and smaller capital markets.

The rest of the paper is organised as follows. Section 2 presents a brief background of the GSE and the current AC regulatory framework in Ghana. Section 3 briefly reviews the literature on the roles, responsibilities and characteristics of AC to provide the conceptual framework of the study. Section 4 provides information on the research methodology while Sections 5 and 6 discuss the results and conclusions of the study respectively.

2 GSE and AC regulatory framework in Ghana

The GSE was incorporated in July 1989 as a private company limited by guarantee under Ghana’s Companies Act of 1963 (Act 179). The exchange was given recognition as an authorised Stock Exchange under the Stock Exchange Act of 1971 (Act 384) in October 1990 and commenced trading on the floor officially in November 1990. The Exchange deals in three main securities: ordinary shares (common stock), preference shares and Exchange Traded Funds (ETF). Trading on the floor of the house is by the Continuous Auction Trading System where orders are executed whenever bids and offers cross during a trading session. With only three (3) listed companies as at December 1991, the GSE has witnessed some listing activities over the years, and by the end of the year 2014, the total number of listed companies stood at thirty-five (35). Shareholding of firms listed on the GSE is highly concentrated as these firms are characterised by large (block) shareholders, who are mostly companies or institutions and in some cases government bodies (Aboagye-Otchere et al., 2012; Tsamenyi et al., 2007; Assenso-Okofo et al., 2011).

The Securities and Exchange Commission (SEC) is the body incorporated to maintain surveillance over the securities market, ensure adequate protection and security to all investors, and guarantee fairness in the securities market. They also oversee issues on CG and financial reporting practices of firms listed on the GSE as well as the conduct of business on the GSE. Thus, SEC is partly responsible for the implementation of sound CG practices among listed firms. Ghana practices the common law code system of corporate reporting and audit with its central legal framework being the Companies Act of 1963 (Act 179), previously referred to as Companies Code. In addition to this framework, other accounting and capital market regulations supplement the reporting and CG practices of firms. The Securities and Exchange Commission Guidelines of Best Corporate Governance Practices of 2002 (hereinafter, SEC Guidelines) and The Listing Regulations of Ghana Stock Exchange (LI1509) of 1990 (hereinafter, Listing Regulations) are the notable regulations that provide guidance for AC functioning in Ghana (Aboagye-Otchere et al., 2012; Tsamenyi et al., 2007; Assenso-Okofo et al., 2011).

The GSE recognises the need for structure and establishment of BOD committees, especially AC in their Listing Regulations. The Listing Regulations, among other things, requires all listed companies to establish and maintain AC, as it obligates the provision of a written evidence of AC effectiveness and operations as part of a firm’s listing requirement. Furthermore, the Listing Regulations give only a few terms of references for AC operations, with the focus on review and recommendation of the roles and
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responsibilities. It is, however, silent on the oversight and corporate BOD governance responsibilities and does not make any provisions as to how AC can effectively function, regarding AC composition, independence, among others.

A more detailed guideline on AC functioning, though not a law or code, was introduced and recommended by SEC in 2002 to encourage best CG practices – the SEC Guidelines. The SEC Guidelines are based on the principles outlined by the Organization for Economic Co-operation and Development (OECD), the Commonwealth Association for Corporate Governance and codes of CG issued by regulatory authorities in emerging markets. The SEC Guidelines provide, among others, that ACs of these companies be made up of at least three (3) members, dominated by non-executive directors (NED), and should have at least an accounting or finance expert(s) on the committee. It also includes other roles relating to audit quality, risk assessment and reporting of activities. Although AC composition, functions, authority and reports are enshrined in the SEC Guidelines, it appears not to be as comprehensive as those of developed economies.

The Ghanaian setting is considered appropriate for the current study for the following reasons. Firstly, over the last decade, the Ghanaian capital market has expanded rapidly and become one of the vibrant stock markets in the sub-region (Aboagye-Otchere et al., 2012; Assenso-Okofo et al., 2011), to necessitate improved CG mechanisms. However, whereas some aspect of CG in Ghana, for example concerning shareholder rights, is commendable, there is still lack of awareness of other CG issues as well as its enforcement and compliance (Assenso-Okofo et al., 2011). Aboagye-Otchere et al. (2012) assert that even though CG practices in Ghana have improved over the years, Ghanaian CG practices have focused on issues such as company-stakeholder relationship and financial reporting and auditing. Suggestively, the CG practices and the associated market regulation system in Ghana is still evolving.

Secondly, one of the issues that need emphasis on improving CG in Ghana is the effective functioning and operations of BOD sub-committees, especially AC, as it is the central sub-committee emphasised in the Listing Regulations. Although the Listing Regulations mandates all firms listed on the GSE to establish ACs, it does not provide detailed guidelines on AC effective functioning. For this reason, even though listed firms in Ghana have long been mandated to establish AC, issues on their effective functioning have become popular only in the last decade, following the introduction of the SEC Guidelines in 2002. The active operations and functioning of AC as a CG mechanism is, thus, a relatively new phenomenon to corporate stakeholders in Ghana, and still in its initial stages compared to more developed countries and other developing African countries like South Africa.4 So in Ghana, whether ACs in Ghana are effectively functioning regarding their roles and responsibilities or merely playing a symbolic or ceremonial role in companies remains an empirical question.

3 Literature review

The setting up of AC, which used to be a voluntary practice, has become a widespread standard and mandatory practice in CG regulatory frameworks globally, especially in countries who have adopted the unitary board system (Kumar and Singh, 2012; Crişan and Fülöp, 2014; Samaha et al., 2015). AC in CG framework is considered a vital mechanism for sound financial reporting to shareholders and a boost to the establishment and operations of stock market regulators (Lin et al., 2008). However, the increased
number of corporate failures and accounting scandals over the last decade and the recent
global financial crisis have heightened investor concerns on corporate reports and
brought to sharp focus on the efficacy and effectiveness of AC as a CG mechanism
(Kumar and Singh, 2012; Mathur, 2009). Consequently, there has been a substantial body
of AC literature over the last decade (Lary and Taylor, 2012). The inclusion of AC in CG
practices by market regulators, professional bodies and governance policymakers has
seen the emergence of a relative consensus on AC’s roles and responsibilities (Lin et al.,
2008; Zaman et al., 2011).

AC roles and responsibilities have evolved over the years to include monitoring the
integrity of the financial statements (Anderson et al., 2004; Beecher-Monas, 2003;
DeZoort et al., 2002) and reviewing the company’s internal audit, internal controls and
risk management systems (Abbott et al., 2004; Carcello and Neal, 2000, 2003). Reviewing
and monitoring the engagement of external auditors and their effectiveness
(Pradeep, 2006; Bédard and Gendron, 2010), and enhancing BOD’s oversight of
management performance and financial reporting processes (Aldamen and Duncan, 2012;
Barua et al., 2010; Thibodeau and Packwood, 2007) are other roles and responsibilities
that have emerged. Whereas earlier studies underscore the primary AC roles and
responsibilities as enhancing the credibility of the financial reporting process, recent
studies associate AC’s leading role and responsibility with improving CG to increase
investor confidence in corporate financial reporting (Lin et al., 2008; Mathur, 2009;
Rupley et al., 2011; Zaman et al., 2011). Accordingly, AC is now generally viewed to
have an oversight and a monitoring role in a firm’s financial reports, external auditors
and internal controls (Lary and Taylor, 2012).

The effectiveness of an AC can be benchmarked against their widely recognised roles
and responsibilities, and the characteristics of the committee and its members (Lary and
Taylor, 2012). The effectiveness of AC function depends on the AC composition,
diligence, financial and industry expertise, authority or power, resources and actual
operations (see Cohen et al., 2011; Lary and Taylor, 2012; Li et al., 2012; Rahmat et al.,
2009; Zaman et al., 2011; Zhang et al., 2007; Akhtaruddin and Haron, 2010; Rainsbury
et al., 2009; Othman et al., 2014; Samaha et al., 2015; Muniandy and Hillier, 2015).
These qualities are often exhibited in AC independence, size, number of meetings,
members’ qualification and work experience Accordingly, these existing literature
consent that for AC to effectively function, they need to be independent, competent,
financially literate, adequately resourced and adequately compensated. Studies contend
that more NEDs on the AC enhance its independence and advocate strongly for the
chairman of the committee to be also a NED (see Cotter and Silvester, 2003; Hemraj,
2004; Barua et al., 2010).

Other studies document that AC members’ knowledge or expertise or experience in
understanding corporate reporting and auditing issues is directly associated with the
effectiveness of AC (see Financial Reporting Council, 2012; Adel and Maissa, 2013;
Dhaliwal et al., 2010). Some studies recommend large size AC to be more effective
because of increased resources (Rahmat et al., 2009) and the endowment of relevant
diversity in views and expertise (Li et al., 2012). Others believe large AC size leads to
process losses and diffusion of responsibilities, delay in its decision making (Karamanou
and Vafeas, 2005; Adel and Maissa, 2013). Hence, market regulators and other CG codes
have only provided for a minimum requirement on AC size to be three members, and this
seemingly has become the convention (Bédard and Gendron, 2010; Samaha et al., 2015).
It is further contended that for AC to oversee and monitor the financial reporting and
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Auditing process, it should frequently meet – at least twice in a year – and conduct separate meetings with management and auditors (Sharma et al., 2009; Zhang et al., 2007; Financial Reporting Council, 2012).

A key consideration that has been missing in the literature on AC over the last decade is the role that corporate stakeholders’ acceptance of the AC system plays in ensuring AC effectiveness. It is suggested that understanding stakeholders’ perception on the roles, responsibilities and attributes of an effective AC is essential to improving AC practices since stakeholders’ view of AC roles and responsibilities can serve as a reference point for assessing their effectiveness (Lin et al., 2008; Rupley et al., 2011). Their knowledge level of AC operations and system also indicates their acceptance of the system (Lin et al., 2008) for which they may serve as a monitoring tool of AC effectiveness. Thus, if stakeholders’ view about the roles and responsibilities of AC deviate from what is advocated and recommended, then the establishment of an AC system in the companies may not achieve its objectives. Only a few studies have examined the views of stakeholders on an effective AC system (Kamel and Elkhatib, 2013; Lin et al., 2008; Rupley et al., 2011).

Lin et al. (2008) investigate the perceptions of investors or creditors, management, NEDs and external auditors of firms in China. They contend that in a country where AC is a new phenomenon, most stakeholders perceive the most significant AC roles as related to the promotion of a sound and proper CG image. Lin et al. (2008) also show that AC’s oversight roles in enhancing the quality of financial reporting and external auditing, and AC’s expanding role in strengthening internal control or internal audit are considered as less important by stakeholders. A similar study by Kamel and Elkhatib (2013) in Egypt examines the perception of accounting academics, financial accountants and external auditors on the roles of AC. They document that stakeholders in Egypt consider the reviewing of significant changes in accounting policies and practices, the evaluation of internal control as the most critical responsibilities of AC. Kamel and Elkhatib (2013) also provide that the independence of AC members and their experience in accounting or other related subjects are perceived by stakeholders as the most important attributes to be considered when selecting members of the committee. These studies, in countries with large stock markets and principle based CG systems, show that in practice, the roles and responsibilities of AC are not all accorded equal importance by the various stakeholders.

Rupley et al. (2011) also examine the extent to which AC members in US firms believe their committees are characterised by the widely recognised effectiveness features. As expected from a rule-based CG environment, they find that the AC members believe that most factors thought to be associated with AC effectiveness are operating mainly within their committees. However, they observed that the AC members believe that the rule-based governance system is not as beneficial to the investing public as portrayed but has negative consequences. The above discourse suggests that despite the widely recognised roles, responsibilities and useful attributes, stakeholders may not have a consensus on effective AC functioning. More so, the perception of stakeholders on AC functioning and requirements may vary significantly across countries and continents (Zaman et al., 2011), and studies on the perception of stakeholders regarding AC system are yet to be advanced.

It is in this regard that we examine whether the perceptions of stakeholders in Ghana deviate from those recommendations advocated by many studies in developed countries and large markets. We differentiate our study from prior studies by considering the perception of stakeholders on AC function in a rapidly growing small capital market that
is characterised by substantial block shareholdings, mostly institutional investors and government organisations. We also include the perceptions of fund managers and financial analysts of institutional investors, which have not been considered by other studies.

4 Research methodology

Our sample respondents were from three different stakeholder groups: investors, company management and external auditors. These stakeholder groups, which we refer to as ‘agency stakeholders’, were chosen because an agency relationship exists between them and firms, and most importantly, the SEC considers this group of stakeholders as key in achieving the best CG practices in Ghana. The SEC Guidelines emphasise three groups of stakeholders – directors and managers, shareholders, and auditors – as the essential groups whose actions are integral to achieving acceptable CG. Moreover, agency problems have been the underlying assumptions for most CG reforms, and thus, we believe that the views of these categories of stakeholders on AC operations will better indicate the understanding of the phenomenon.

Financial analysts and investment fund managers of all the major institutional investors of listed companies and leading investment companies in Ghana constituted the investor group respondents. Managing partners and chief accountants or auditors of the big four auditing firms (i.e., PWC, KPMG, Ernst & Young and Deloitte & Touche) constituted the external auditor's group respondents. We focused only on the big four because auditing services for listed companies on the GSE are mostly performed by the big four auditing firms. The general managers, financial managers or accountants and internal auditors of listed companies constituted the company management group.

A survey method of research was employed in this study and data on AC roles, responsibilities and characteristics from stakeholders of companies listed on the GSE was collected mainly using questionnaires. The Lin et al. (2008) research instrument, hereafter referred to as LJQI, was adapted for this study as it extensively covers the roles, responsibilities and characteristics of AC as enshrined in the global CG codes and literature. LJQI was modified to incorporate other roles and responsibilities identified in the prior literature and other codes of best practices. We added four questions to the section that examined respondents’ perceptions on AC roles, five items to the section that solicited respondents’ view on the responsibilities of AC and one question to the section devoted to the views on AC characteristics. Each question was designed with an answer expressed in a five-point Likert scale where ‘1’ means ‘completely disagree’, ‘5’ indicates ‘completely agree’ and ‘3’ represents a neutral opinion.

In total, 140 questionnaires were administered to the target groups, out of which 81 were returned, representing 57.9% response rate. Out of this number (11) were not included in the analysis because respondents failed to answer all the questions thoroughly (see Table 1). Reliability tests were first conducted to assess the internal consistency of the responses using the Cronbach alpha coefficient. According to Nunnally (1978), a Cronbach alpha coefficient value of 0.7 or more is recommended. The test resulted in a value of 0.91 for items on AC roles and responsibilities and 0.71 for items on AC characteristics indicating that the items used to describe the various AC dimensions are consistent in describing the phenomenon. Scores assigned to the distinct items were
averaged out, a composite average score was obtained, and the scores ranked in order of perceived importance. Analysis of variance (ANOVA) tests were conducted to check for the differences in the average scores among the various stakeholder groups.

### Table 1 Stakeholder groups and response rate

<table>
<thead>
<tr>
<th>Group of respondents</th>
<th>No. of firms  (Questionnaires sent)</th>
<th>No. questionnaires received (Response rate)</th>
</tr>
</thead>
<tbody>
<tr>
<td>External auditors</td>
<td>4 (12)</td>
<td>12 (100%)</td>
</tr>
<tr>
<td>Investors</td>
<td>13 (26)</td>
<td>20 (76.9%)</td>
</tr>
<tr>
<td>Senior management</td>
<td>34 (102)</td>
<td>49 (48.0%)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>51 (140)</strong></td>
<td><strong>81 (57.9%)</strong></td>
</tr>
<tr>
<td>Non-useable response</td>
<td></td>
<td>11 (7.9%)</td>
</tr>
<tr>
<td><strong>Total useable response</strong></td>
<td></td>
<td>70 (50%)</td>
</tr>
</tbody>
</table>

### 5 Results and discussion

#### 5.1 Roles of the AC

Table 2 shows that the mean values of all the items are higher than 3, indicating a very high level of familiarity with AC roles among the various stakeholder groups being studied. Generally, ‘agency stakeholders’ in Ghana consider the following roles of AC to be the most important: “to strengthen internal control”, “to strengthen internal audit” and “to promote good corporate governance”. These results imply that ‘agency stakeholders’ in Ghana associate the role of AC more with internal audit function within the organisation than any other unit over which AC has oversight responsibility. AC’s role about reducing illegal audits or irregularities, to regularly review the adequacy of the organisational structure of the company and to reduce the board of directors’ risk exposure were ranked less important by the respondents. The findings are in sharp contrast to findings by Kamel and Elkhatib (2013) that associate the essential role of AC in an Egyptian setting as the ‘review of significant changes in accounting policies and practices. Further tests aimed at identifying differences in responses among the three categories of respondents on AC roles were conducted using ANOVA after re-categorising the average scores on the roles of AC based on the different stakeholder groups (see Table 2).

External auditors perceive the promotion of good CG, the strengthening of internal audit, and the strengthening of internal control systems respectively as the most important roles of AC. Among the investor group, the three roles highly ranked as important were to strengthen internal audit function, strengthen internal control system, and lift the image of sound CG. The strengthening of internal control systems, promotion of good CG and strengthening of internal audit function were also ranked the most important roles by the senior management of the listed companies. The results of ANOVA tests yielded no significant differences in the average scores of most of the items across the various stakeholder groups categories. Significant differences among the groups were, however, observed for the roles of preventing fraudulent financial reports ($F = 5.39$, $p = 0.01$), ensuring the authenticity of the information provided in the financial statements.
One significant role of AC that had modest average values across all the company groupings was the role of ‘reducing the board of directors’ risk exposure’ (Mean = 3.58, 3.41 and 3.83 across external auditors, institutional investors and public listed companies respectively).

Table 2  Roles of AC

<table>
<thead>
<tr>
<th>Items (α = 0.91)</th>
<th>General scores (N = 70)</th>
<th>External auditors (N = 12)</th>
<th>Investors (N = 17)</th>
<th>Senior management (N = 41)</th>
<th>ANOVA</th>
</tr>
</thead>
<tbody>
<tr>
<td>To strengthen internal control</td>
<td>Mean</td>
<td>4.46</td>
<td>4.08</td>
<td>4.08</td>
<td>2.77</td>
</tr>
<tr>
<td></td>
<td>SD</td>
<td>0.65</td>
<td>0.81</td>
<td>0.81</td>
<td>0.08</td>
</tr>
<tr>
<td>To strengthen internal audit</td>
<td>Mean</td>
<td>4.44</td>
<td>4.25</td>
<td>4.25</td>
<td>4.46</td>
</tr>
<tr>
<td></td>
<td>SD</td>
<td>0.74</td>
<td>0.99</td>
<td>0.99</td>
<td>0.51</td>
</tr>
<tr>
<td>To promote good corporate governance</td>
<td>Mean</td>
<td>4.41</td>
<td>4.25</td>
<td>4.25</td>
<td>4.29</td>
</tr>
<tr>
<td></td>
<td>SD</td>
<td>0.71</td>
<td>0.79</td>
<td>0.79</td>
<td>0.73</td>
</tr>
<tr>
<td>Lift image of sound corporate governance</td>
<td>Mean</td>
<td>4.37</td>
<td>4.17</td>
<td>4.17</td>
<td>4.38</td>
</tr>
<tr>
<td></td>
<td>SD</td>
<td>0.83</td>
<td>0.93</td>
<td>0.93</td>
<td>1.14</td>
</tr>
<tr>
<td>A link between the board of directors and auditors</td>
<td>Mean</td>
<td>4.36</td>
<td>4.08</td>
<td>4.08</td>
<td>4.35</td>
</tr>
<tr>
<td></td>
<td>SD</td>
<td>0.84</td>
<td>1.02</td>
<td>1.02</td>
<td>0.75</td>
</tr>
<tr>
<td>To create an environment that ensures auditor independence and objectivity</td>
<td>Mean</td>
<td>4.33</td>
<td>4.08</td>
<td>4.08</td>
<td>4.35</td>
</tr>
<tr>
<td></td>
<td>SD</td>
<td>0.72</td>
<td>0.87</td>
<td>0.87</td>
<td>0.75</td>
</tr>
<tr>
<td>To enhance audit quality</td>
<td>Mean</td>
<td>4.31</td>
<td>4.08</td>
<td>4.08</td>
<td>4.25</td>
</tr>
<tr>
<td></td>
<td>SD</td>
<td>0.66</td>
<td>0.81</td>
<td>0.81</td>
<td>0.48</td>
</tr>
<tr>
<td>To ensure management has applied acceptable accounting practices and identified correctly major risk</td>
<td>Mean</td>
<td>4.24</td>
<td>3.83</td>
<td>3.83</td>
<td>4.29</td>
</tr>
<tr>
<td></td>
<td>SD</td>
<td>0.81</td>
<td>0.83</td>
<td>0.83</td>
<td>0.73</td>
</tr>
<tr>
<td>To prevent fraudulent financial reports</td>
<td>Mean</td>
<td>4.23</td>
<td>3.75</td>
<td>3.75</td>
<td>4.00</td>
</tr>
<tr>
<td></td>
<td>SD</td>
<td>0.83</td>
<td>1.06</td>
<td>1.06</td>
<td>0.73</td>
</tr>
<tr>
<td>To ensure authenticity of information provided in the financial statements</td>
<td>Mean</td>
<td>4.13</td>
<td>3.58</td>
<td>3.58</td>
<td>4.06</td>
</tr>
<tr>
<td></td>
<td>SD</td>
<td>0.90</td>
<td>1.06</td>
<td>1.06</td>
<td>0.89</td>
</tr>
<tr>
<td>To reduce illegal audits or irregularities</td>
<td>Mean</td>
<td>3.86</td>
<td>3.33</td>
<td>3.33</td>
<td>3.94</td>
</tr>
<tr>
<td></td>
<td>SD</td>
<td>1.02</td>
<td>1.07</td>
<td>1.07</td>
<td>0.75</td>
</tr>
<tr>
<td>To regularly review the adequacy of the company’s organisational structure and policy implementations</td>
<td>Mean</td>
<td>3.85</td>
<td>3.33</td>
<td>3.33</td>
<td>3.94</td>
</tr>
<tr>
<td></td>
<td>SD</td>
<td>1.03</td>
<td>1.22</td>
<td>1.22</td>
<td>0.78</td>
</tr>
<tr>
<td>To reduce the board of directors’ risk exposure</td>
<td>Mean</td>
<td>3.69</td>
<td>3.58</td>
<td>3.58</td>
<td>3.41</td>
</tr>
<tr>
<td></td>
<td>SD</td>
<td>1.04</td>
<td>0.87</td>
<td>0.87</td>
<td>1.28</td>
</tr>
</tbody>
</table>

SD is the standard deviation, and the items are ranked in order of importance according to their mean values. ‡, ^ and ° indicate differences in the group means between external auditors and senior management, external auditors and investors, and investors and senior management respectively. Mean differences are based on the Turkey HSD test and significant at 10% level or lower.

5.2 Responsibilities of AC

As shown in Table 3, on the average, the respondents agree with the items outlined as the responsibilities of AC as all the means for each of the questions were above 3 (neutral). The respondents perceive the monitoring and reviewing of internal control programs, the
supervision of internal audit work and the coordinating of internal and external audit work as the three most important responsibilities of AC. These results connote that, in general, ‘agency stakeholders’ in Ghana perceive the oversight and monitoring responsibility of AC regarding audit quality and financial reporting but view this responsibility of AC as mainly towards the internal audit process of organisations. This perception is in line with the typical responsibilities of AC in most standard CG codes and best practices in developed countries and other CG studies (Kamel and Elkhatib, 2013; Adel and Maissa, 2013; Financial Reporting Council, 2012). However, it deviates from the Lin et al. (2008) study in China which found the three most important responsibilities of AC to be coordinating the internal and external audit work, mediating conflict between management and auditor and supervising sound CG implementation. The Ghanaian ‘agency stakeholders’ perception on AC responsibility is, however, not surprising as the provision of the SEC Guidelines, which guides Ghanaian listed companies on the functions of AC, emphasise AC responsibility towards ensuring the efficacy of internal control systems and internal audit.

The items with the least average scores (i.e., ranked less essential responsibilities) were to oversee external audit processes, to monitor management and financial performance and lastly to oversee the internal auditors’ qualification. This view is also held generally by the stakeholders used by Lin et al. (2008) in their study in China. The indication is that even though AC oversight responsibility in the external audit process and monitoring of management performance is considered by CG codes and studies in the developed world as important AC responsibilities, countries, where AC system is entirely new, are yet to appreciate these responsibilities of AC. Suggestively, it may take some more time for stakeholders in developing countries to fully form their beliefs of the responsibilities of AC.

A further investigation into the differences in the perceived responsibilities of AC among the different ‘agency stakeholders’ was made. Both external auditors and investors considered supervising internal audit work, monitoring and reviewing internal control programs and coordinating internal and external audit work as the three most important responsibilities of AC. Senior managers of public listed companies view the most important responsibilities of the AC as monitoring and reviewing internal control programs; overseeing the integrity of financial reporting and internal controls; and advising BOD on risk management issues. A similar ANOVA tests for the various subgroups yielded insignificant differences in the levels of agreement in the various statements on the responsibilities of the AC.

However, the level of agreement on AC’s responsibility for monitoring compliance with corporate practices and policies with ethical and legal requirements was different among the three stakeholder groupings ($F = 4.34, p = 0.02$). Equally, advising the board of directors on risk management issues had significant differences between the group's responses ($F = 2.87, p = 0.08$). It is also worth noting that the senior management strongly agrees that overseeing the integrity of financial reporting and internal controls and the monitoring of auditor independence are essential responsibilities of AC. In contrast, the external auditors – whose role is likely to be affected by this responsibility – did not view them as a significant responsibility by maintaining virtually a neutral position. The likely explanation for these differences is not far-fetched. Most CG studies suggest that effective AC systems bring about improved financial reporting quality and improved external auditor independence (Lin et al., 2008; Mathur, 2009;
Rupley et al., 2011; Zaman et al., 2011). Therefore, managers of firms that have experienced improvement in the internal control system, audit quality and financial reporting after the inception of AC are more likely to associate the results with AC.

### Table 3  Responsibilities of AC

<table>
<thead>
<tr>
<th>Items (α = 0.91)</th>
<th>General scores (N = 70)</th>
<th>External auditors (N = 12)</th>
<th>Investors (N = 17)</th>
<th>Senior management (N = 41)</th>
<th>ANOVA F(p) value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Monitoring and reviewing internal control programs</td>
<td>4.26 0.88</td>
<td>4.08 0.83</td>
<td>4.29 0.61</td>
<td>4.29 1.01</td>
<td>0.27 (0.76)</td>
</tr>
<tr>
<td>Supervising internal audit work</td>
<td>4.23 0.82</td>
<td>4.25 1.06</td>
<td>4.29 0.50</td>
<td>4.20 0.79</td>
<td>0.08 (0.91)</td>
</tr>
<tr>
<td>Coordinating internal and external audit work</td>
<td>4.16 0.85</td>
<td>3.92 0.93</td>
<td>4.18 0.43</td>
<td>4.22 0.94</td>
<td>0.59 (0.55)</td>
</tr>
<tr>
<td>Overseeing the integrity of financial reporting and internal controls</td>
<td>4.15 0.72</td>
<td>3.83 0.73</td>
<td>4.06 0.49</td>
<td>4.28 0.77</td>
<td>2.06 (0.15)</td>
</tr>
<tr>
<td>Advising board of directors on risk management issues</td>
<td>4.09 0.82</td>
<td>3.83 1.12</td>
<td>3.81 0.83</td>
<td>4.28 0.66</td>
<td>2.87 (0.08)</td>
</tr>
<tr>
<td>Monitoring auditor independence</td>
<td>4.09 0.94</td>
<td>3.92 1.02</td>
<td>3.82 1.12</td>
<td>4.24 0.79</td>
<td>1.49 (0.24)</td>
</tr>
<tr>
<td>Monitoring compliance of corporate practices and policies with ethical and legal requirements</td>
<td>4.04 0.76</td>
<td>3.58 0.87</td>
<td>3.94 0.41</td>
<td>4.22 0.71</td>
<td>4.34 (0.02)</td>
</tr>
<tr>
<td>Facilitating and enhancing communication between external auditors and the board of directors</td>
<td>4.04 0.78</td>
<td>3.83 0.78</td>
<td>3.94 0.64</td>
<td>4.15 0.85</td>
<td>0.95 (0.39)</td>
</tr>
<tr>
<td>Supervising sound Corporate Governance implementation</td>
<td>4.04 0.96</td>
<td>3.67 0.99</td>
<td>3.94 1.07</td>
<td>4.20 0.94</td>
<td>1.48 (0.21)</td>
</tr>
<tr>
<td>Overseeing compliance with legal and regulatory requirements</td>
<td>4.01 0.98</td>
<td>3.92 0.99</td>
<td>3.94 1.14</td>
<td>4.08 0.90</td>
<td>0.19 (0.84)</td>
</tr>
<tr>
<td>Responsible for truthful financial reporting</td>
<td>3.83 0.95</td>
<td>3.58 1.00</td>
<td>3.94 0.54</td>
<td>3.85 0.96</td>
<td>0.61 (0.59)</td>
</tr>
<tr>
<td>Mediating conflict between management and auditor</td>
<td>3.77 0.96</td>
<td>3.67 0.94</td>
<td>3.65 0.94</td>
<td>3.85 1.01</td>
<td>0.32 (0.71)</td>
</tr>
<tr>
<td>Overseeing external audit process</td>
<td>3.71 0.99</td>
<td>3.50 1.17</td>
<td>4.06 0.38</td>
<td>3.63 1.03</td>
<td>1.60 (0.25)</td>
</tr>
<tr>
<td>Monitoring management financial performance</td>
<td>3.68 1.06</td>
<td>3.55 1.18</td>
<td>3.65 0.77</td>
<td>3.73 1.05</td>
<td>0.19 (0.88)</td>
</tr>
<tr>
<td>Overseeing the internal auditors’ qualification</td>
<td>3.66 1.06</td>
<td>3.92 0.93</td>
<td>3.24 1.29</td>
<td>3.76 1.02</td>
<td>1.81 (0.15)</td>
</tr>
</tbody>
</table>

SD is the standard deviation, and the items are ranked in order of importance according to their mean values. †, ‡ and †* indicate differences in the group means between external auditors and senior management, external auditors and investors, and investors and senior management respectively. Mean differences are based on the Turkey HSD test and significant at 10% level or lower.
On the other hand, external auditors may want to portray that they have always been independent of management in their audit work and have always ensured quality audit process leading to quality financial reports with or without the AC. By ranking AC’s supervisory and monitoring responsibilities of internal audit and the advisory responsibility of risk management issues as the three most important responsibilities (Table 3), external auditors invariably view AC’s responsibilities to be more associated with reducing the extent of work and risks associated with their clients than ensuring their independence. The external auditors’ view corroborates studies that relate AC more to overseeing the companies’ internal audit and controls system (Lin et al., 2008; Adel and Maissa, 2013; Barua et al., 2010; Alzeban and Sawan, 2015).

5.3 Characteristics of effective AC

In the view of respondents, the most desirable characteristics required for effective functioning of AC, as indicated in Table 4, are: the inclusion of at least one (1) accounting or finance expert; AC reports to the BOD; and the chair of AC being a non-executive (independent) director. These results also support studies that contend that the composition of AC, regarding its independence and expertise, ensures its effective functioning (Kamel and Elkhatib, 2013; Lin et al., 2008; Rupley et al., 2011). It is worth noting that whereas external auditors and senior management of firms agree that the size of AC, at least three members, is key in ensuring its effectiveness, investors appear not to be supportive of this fact as they were somehow neutral in their response.

Regarding how AC activities should be communicated, almost all respondents from the different subgroups were generally of a neutral view to the attributes outlined (i.e., AC should report to shareholders during the annual general meeting, AC responsibilities should be disclosed, and AC reports are to be included in the annual reports). These findings support studies which suggest that the disclosure and reporting relating to AC are not necessary as it increases AC liabilities (Cohen et al., 2004; Zaman et al., 2011) but deviates from findings of Lin et al. (2008) in which all stakeholders agreed to similar questions. The results also contradict most CG codes which require that AC report on its activities should be made available to shareholders and other investors, and proposals that AC-related disclosure and reporting is a necessary element for assessing the effectiveness of AC function (Lee et al., 2004; Rezaee et al., 2003). The findings are, however, not surprising as the SEC Guidelines require only a report on the establishment of AC and AC report on their review of the firm’s internal audit function and controls system and not the AC functions and activities. Hence, further confirming the embryonic nature of AC systems in Ghana.

Respondents marginally agreed to the fact that the AC should meet at least twice in a year (Mean = 3.96, SD = 1.04) and this is also not surprising. The fact that studies have shown that the frequency of meeting activities of AC ensures its effectiveness (Sharma et al., 2009; Zhang et al., 2007), the SEC Guidelines on AC in Ghana does not have any explicit provision on the number of meetings of AC, unlike other CG codes.
Table 4  Characteristics of AC

<table>
<thead>
<tr>
<th>Items (α = 0.71)</th>
<th>General scores (N = 70)</th>
<th>External auditors (N = 12)</th>
<th>Investors (N = 17)</th>
<th>Senior management (N = 41)</th>
<th>ANOVA F(p) value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Audit Committee should include at least one (1) accounting/finance expert</td>
<td>Mean: 4.72, SD: 0.60</td>
<td>Mean: 4.58, SD: 0.80</td>
<td>Mean: 4.67, SD: 0.65</td>
<td>Mean: 4.78, SD: 0.47</td>
<td>0.62 (0.56)</td>
</tr>
<tr>
<td>Audit Committee should report to the board of directors</td>
<td>Mean: 4.49, SD: 0.80</td>
<td>Mean: 4.17, SD: 0.93</td>
<td>Mean: 4.38, SD: 1.18</td>
<td>Mean: 4.63, SD: 0.55</td>
<td>1.70 (0.16)</td>
</tr>
<tr>
<td>Audit Committee should have at least three (3) members</td>
<td>Mean: 4.07, SD: 0.88</td>
<td>Mean: 4.25, SD: 0.75</td>
<td>Mean: 3.63, SD: 1.26</td>
<td>Mean: 4.20, SD: 0.75</td>
<td>2.71 (0.06)</td>
</tr>
<tr>
<td>Audit Committee should be chaired by a non-executive (independent) director</td>
<td>Mean: 4.46, SD: 0.85</td>
<td>Mean: 4.17, SD: 1.12</td>
<td>Mean: 4.44, SD: 0.78</td>
<td>Mean: 4.56, SD: 0.77</td>
<td>1.01 (0.37)</td>
</tr>
<tr>
<td>Audit Committees should meet at least two (2) times in a year</td>
<td>Mean: 3.96, SD: 1.04</td>
<td>Mean: 4.00, SD: 1.06</td>
<td>Mean: 3.73, SD: 1.55</td>
<td>Mean: 4.02, SD: 0.88</td>
<td>0.43 (0.65)</td>
</tr>
<tr>
<td>Audit Committee report should be included in annual reports</td>
<td>Mean: 3.68, SD: 1.06</td>
<td>Mean: 3.67, SD: 1.00</td>
<td>Mean: 3.40, SD: 1.00</td>
<td>Mean: 3.78, SD: 1.06</td>
<td>0.80 (0.50)</td>
</tr>
<tr>
<td>Audit Committee responsibilities should be disclosed publicly</td>
<td>Mean: 3.62, SD: 1.12</td>
<td>Mean: 3.82, SD: 1.10</td>
<td>Mean: 3.44, SD: 1.13</td>
<td>Mean: 3.63, SD: 1.16</td>
<td>0.40 (0.69)</td>
</tr>
<tr>
<td>All Audit Committee members should be non-executive (independent) directors</td>
<td>Mean: 3.45, SD: 1.17</td>
<td>Mean: 2.92, SD: 1.19</td>
<td>Mean: 3.44, SD: 1.13</td>
<td>Mean: 3.61, SD: 1.16</td>
<td>1.65 (0.20)</td>
</tr>
<tr>
<td>Audit Committee should report to shareholders during Annual General Meeting</td>
<td>Mean: 3.41, SD: 1.09</td>
<td>Mean: 3.08, SD: 1.09</td>
<td>Mean: 3.13, SD: 1.12</td>
<td>Mean: 3.61, SD: 1.10</td>
<td>1.75 (0.17)</td>
</tr>
</tbody>
</table>

SD is the standard deviation, and the items are ranked in order of importance according to their mean values. ‡, †, ^ and ° indicate differences in the group means between external auditors and senior management, external auditors and investors, and investors and senior management respectively. Mean differences are based on the Turkey HSD test and significant at 10% level or lower.

6 Conclusions

This study examined the views of crucial ‘agency stakeholders’ of listed companies on the roles, responsibilities and the desirable characteristics of an effective AC system in Ghana. With mean values greater than 3 for all items on the roles, responsibilities and characteristics of AC, the study presents that generally, ‘agency stakeholders’ are very familiar with the AC functioning in Ghana. These stakeholders also recognise that the efficacy and effectiveness of AC depend on the independence and expertise of the members of the committee.

Overall, ‘agency stakeholders’ of listed companies in Ghana view the strengthening of internal audit and control systems and the promotion of good CG mechanisms as the most important roles of the AC. Although they were neutral on AC’s role in reducing the BOD risk exposure (Mean = 3.69) and reducing audit and accounting irregularities (Mean = 3.83), these items were ranked as the less important roles. Regarding the responsibilities of AC, ‘agency stakeholders’ perceive that audit committees are highly responsible for monitoring and supervising the internal audit and control systems, and
coordinating the internal and external audit function of firms. AC’s responsibility for overseeing external audit processes and monitoring management and financial performance were ranked as less important. Thus, this study further contends that ‘agency stakeholders’ in Ghana associate the roles and responsibilities of AC more with internal audit function within the organisation than any other unit over which AC has oversight responsibility. The finding is not surprising since AC roles and responsibility towards ensuring the efficacy of internal control systems and internal audit in companies, has been the primary functions emphasised by the Ghanaian SEC Guidelines.

Again, with the results showing differences in agreement of the relative importance of the roles and responsibilities of AC between the different ‘agency stakeholders’ studied, this study advances that different ‘agency stakeholders’ do not attach the same level of importance to the roles, responsibilities and characteristics of AC. This finding, the authors believe, is because the AC system is still nascent in Ghana and there are limited provisions on AC in the SEC Guidelines in Ghana, which are inexplicit. For this reason, it is recommended that, considering the importance of AC in CG mechanisms, SEC of Ghana collaborate with other stakeholders and policymakers to provide separate guidelines for AC as practised in developed countries.

This study contributes to the literature by providing evidence on the importance of the role of stakeholders in ensuring the effective implementation of an AC system through their acceptance of the system. If there is no consensus on the roles, responsibilities and desirable characteristics of AC among all stakeholders, benchmarking its effectiveness among these stakeholders may be difficult. Policymakers and regulators in Ghana are continuously seeking to enhance investor confidence in its growing capital markets through effective CG systems and improved financial reporting quality. The findings of this research, therefore, provide useful information to SEC and other capital market regulatory bodies in Ghana on what stakeholders perceive as crucial for corporate AC to be effective. With such knowledge, policymakers and regulators can consider stakeholders view and other country-specific factors in their policy-making process to provide a comprehensive and practical CG framework and procedure. Our study also adds to the existing literature on AC and serves as a foundational study, for further research into AC systems in small capital markets and emerging economies.

Our study is limited in using only stakeholders who may have agency relationships with firms. It also did not consider the extent to which these roles and responsibilities are performed and the characteristics exhibited in the firms. We, therefore, recommend that further studies look at the extent of the AC practice and include AC members as part of the respondents.

References


Audit committee roles, responsibilities and characteristics in Ghana


Notes

1AC roles and responsibilities have evolved from reviewing financial statements prepared by management through enhancing the credibility of the financial reporting process and financial statements to overseeing companies’ internal controls. The coordination of the work of internal and external auditors and enhancing good CG via BOD’s oversight of management performance and financial reporting processes have also emerged over the years. (see Abbott et al., 2004; Spira, 2002; Allegrini and Greco, 2013; Muniandy and Hillier, 2015; Bliss et al., 2007; Assenso-Okofo et al., 2011; Samaha et al., 2012, 2015).

2Undeveloped capital markets, government interventionism, the absence of norms and values of business standards and weak legal system are the characteristics of most developing countries (Rabelo and Vasconcelos, 2002; Tsamenyi et al., 2007; Aboagye-Otchere et al., 2012).

3The Listing Regulations terms of reference for ACs include: to recommend to BOD on the appointment and remuneration of external auditors; to review auditors’ evaluation of the internal controls and accounting system; to review and discuss audited accounts with management, and to review the scope and effectiveness of internal audit procedure.

4For instance, although South Africa is still considered as a developing country, the country has undergone series of reforms in their corporate governance systems to be at par with international standards with the implementation of King Report III in 2010. The King III mandates all companies listed on the Johannesburg Stock Exchange to provide an ‘integrated report’, which makes corporate governance and sustainability practices compulsory, unlike other African countries, like Ghana, which governance codes are voluntary (Muniandy and Hillier, 2015).