

THE ROLE OF AN AUDIT COMMITTEE IN BANK SOLVENCY: AN EMERGING MARKET CASE

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Abstract

How to cite this paper: Salia, H., Addo, E. B., & Adoboe-Mensah, N. (2019). The role of an audit committee in bank solvency: An emerging market case. *Journal of Governance & Regulation*, 8(1), 38-46. http://doi.org/10.22495/jgr_v8_i1_p3

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ISSN Print: 2220-9352
ISSN Online: 2306-6784

Received: 11.12.2018
Accepted: 25.01.2019

JEL Classification: E58, G33, G34, G38
DOI: 10.22495/jgr_v8_i1_p3

Recent discourse on corporate failures gives prominence to the impact of weak corporate governance systems in most corporate entities, hence reasons for investors and creditors pessimism. This literature review article seeks to articulate how audit committee could strengthen corporate governance in organizations. The paper reviews the guidelines developed by the Bank of Ghana to curb the degeneration of the Banking sector in Ghana following the collapse of seven indigenous banks between 2017 and 2018. The objective of this paper is to underscore the effective functioning of audit committees as a panacea to the corporate governance weaknesses in Ghana. The paper observes that albeit the Bank of Ghana, as a regulatory body, underscored weak corporate governance systems - it failed to emphasize mechanisms for strengthening audit committees in its guidelines to regulate the sector. The paper, therefore, promotes the presence and effective functioning of the audit committees as an additional layer to strengthen the monitoring and supervisory functions within corporate bodies. It recommends that the Bank of Ghana must emphasize the establishment of audit committees as a core part of corporate governance systems of all banks to ensure that the interest of all stakeholders is protected adequately through the oversight role of the audit committees.

Keywords: Audit Committee, Bank, Emerging Market, Solvency

1. INTRODUCTION

There has been a persistent global outcry from both scholars and practitioners over weak institutional arrangements for the implementation of key corporate governance principles particularly audit committees. An audit committee is an effective tool for enhancing good corporate governance practices that can effectually reduce the number of corporate scandals often experienced globally (Al-Baidhani, 2014). Although scholars have emphasized the importance of audit committees in monitoring the performance of the board and management, many companies have not invested much in establishing audit committees to provide the requisite checks and balances on the functions of the board (Lessambo, 2014) and this has resulted in many deviating from their value maximization objective

(Crossan, 2007). Given this background, this paper articulates how the presence and effective functioning audit committee could limit irresponsible and unethical behaviour of corporate managers. It provides a detailed review of the literature on current discourse on audit committees and their importance to strengthening corporate governance systems, with particular emphasis on the Ghanaian banking industry. The paper seeks to demonstrate that, the presence and effective functioning of the audit committee, as a subcommittee of the board of directors will serve as an additional and effective layer to strengthening the monitoring and supervision functions of corporate institutions. The main objective of the paper, therefore, is to prompt regulators and policy makers (including the Bank of Ghana) on the need to implement audit committees as a key mechanism for

strengthening corporate governance systems for the protection of stakeholders' interest.

The remaining sections of the paper consist of discussions on global corporate failures, the importance of corporate governance and the role of audit committee (as a subset of the board) in curtailing corporate scandals. The paper further reviewed circumstances leading to the collapse of the seven indigenous banks in Ghana. It also evaluated the governance mechanisms introduced by the Bank of Ghana in response to the recent banking scandals. In addition, the paper analysed how the banking scandals in Ghana could have been averted if the affected banks had effective audit committees. The paper ends with recommendations to regulators and policymakers alike for preventing future recurrences.

2. CORPORATE FAILURES AROUND THE GLOBE

Within the 21st century, every regional block in the corporate world has witnessed significant corporate failures. In the developed world, the cases of Royal Ahold, Parmalat, and Vivendi Universal took place in Europe while that of Enron, HealthSouth, and WorldCom happened in the United States (Jaimes-Valdez et al., 2017). Likewise, in Africa, the collapse of Intercontinental Bank Plc, a leading commercial bank in Nigeria is attributable to the scandalous acts of the company's management (Adewale, 2013). According to Adewale, the Intercontinental Bank accumulated non-performing loans of up to ₦210.9 billion; triggered by granting of unsecured credit facilities, manipulation of share prices, and involvement in window dressing accounting. Equally, the scandal that hit the seven Ghanaian indigenous banks resulting in total collapse is still fresh in the minds of affected stakeholders (Bank of Ghana, 2018a).

Similar scandals occurred in Pacific Asia and South America (Lessambo, 2014). Most of these corporate events resulted from weak corporate governance systems that failed to promote the value maximization objective of the firm. There is, therefore, the need for an immediate response to halt such reckless behavior by the managers of international organizations in order to restore public confidence in business operations.

Some efforts have been made to address the weaknesses that created the opportunity for these scandalous corporate practices to happen unnoticed. In Nigeria, the introduction of the 2011 Securities and Exchange Commission Code of Corporate Governance was reportedly triggered by the irresponsible and unethical behavior of managers within the banking sector (Demaki, 2017). Consequently, scholars including Agyeman et al. (2013) and Jaimes-Valdez et al. (2017) suggested a clear separation of corporate ownership from control, as a wakeup call to ensure effective operationalization of the theory of the firm. Nonetheless, without the insistence for the establishment of the systems to check the activities of the board and the management of a business, little would be done to promote the interest of the shareholders either by design or by accident. It is against this backdrop that an audit committee of the board becomes paramount in providing the requisite checks and balances on firms' board and management activities towards accomplishment of the value maximization objectives.

3. CORPORATE GOVERNANCE AND THE PRESENCE OF AUDIT COMMITTEES

The importance of the distinction between the shareholders and directors of the firm is evidenced in the inclusion of the tenets of the theory of the firm in various company laws and related legislation across the globe. A clear distinction between the shareholders and directors is not something novel in Ghana as the practice has been sanctioned by different regulatory authorities for some years now. For example, the Ghana companies code 1963 (Act 179), Security and Exchange Commission regulations, 2003 (L. I. 1728), and the listing regulations, 1990 (L. I. 1509) of the Ghana Stock Exchange (GSE) all provide for a clear distinction between ownership and control. All these provisions intended to uphold the tenets of good corporate governance are in line with the best corporate practices globally.

Many corporate governance practices have incorporated these principles as well, aiming to ensure that the interest of all parties related to the firm is adequately protected. The general argument is that firms that implement a high degree of corporate governance practices are more likely to maximize shareholders value through high profits than firms with a lower level of corporate governance practices (Crossan, 2007). One of the areas that has not been adequately emphasized in the shareholder value maximization argument is the role of audit committees in monitoring corporate performance in line with the theory of the firm. Many connoisseurs consider audit committees as an important mechanism that seeks to strengthen corporate governance systems by ensuring high-quality financial reporting in many public companies (Blue Ribbon Committee, 1999; New York Stock Exchange, 2004; Sarbanes-Oxley Act, 2002). Given this background, it is essential to ascertain the role that audit committee plays so that corporate failures resulting from weak corporate governance systems can be properly analyzed to ensure that solutions proposed could address the root causes of the issues leading to the failures. The next sections provide detailed literature on audit committees as a key element for strengthening corporate governance systems.

3.1. Meaning of audit committee

Audit committee has been variously defined. The Sarbanes-Oxley Act (SOX 2002, Section 2) considered audit committee as "a committee (or equivalent body) established by and amongst the board of directors of an issuer for the purpose of overseeing the accounting and financial reporting processes of the issuer and audits of the financial statements of the issuer". Levitt (2000) described audit committee as "one of the most reliable guardians of the public interest" (p. 5). Levitt (2000) further stressed that for audit committee to be a good guardian of the public interest, it must consist of competent, committed, independent, and tough-minded people.

On the other hand, DeZoort et al. (2002) focused their definition of audit committee on effectiveness. They explained audit committee as a body consisting of qualified members with the requisite resources and authority to ensure reliable financial report, internal control, and risk

management through diligent efforts with the view to protecting the interest of stakeholders. DeZoort et al. (2002) definition of audit committee thus incorporate all the key elements of a good corporate governance structure, the prerequisite for the protection of stakeholders' interest. CIPFA (2005) welcomed audit committee from the local government perspective, describing audit committee as a key element of corporate governance that provides assurance on entities' management of risk, maintaining effective control environment, and reporting on both financial and non-financial performance. From the above definitions, an audit committee can be described as a sub-committee of the board with advisory roles specifically to ensure that the financial reports are produced in accordance with applicable legal requirements and accounting standards. It can also be inferred from the definitions that albeit the audit committee is a subset of the board, it operate and act as an independent body, a key factor for protecting the interest of all stakeholders.

It is worth noting that in most countries, there exist other sub-committees to the board, other than the audit committee, helping the board to advance its business efficiently and effectively. Other sub-committees usually mentioned in most jurisdictions include the finance committee, nomination committee, human resources and remuneration committee, public affairs committee, and provident and retirement fund committee (Criúana & Fülöpa, 2014; Zain, Subramaniam, & Stewart, 2006). The reason for establishing all these sub-committees is to advance the achievement of the value maximization objectives of the firm.

3.2. Role of audit committee in organizations

Published financial statements represent a key reference point for stakeholders' decisions. The audit committee is pivotal to ensuring the credibility of published financial statements, especially with increased cases of global corporate scandals. According to the KPMG Audit Committee Institute (2003) the introduction of Sarbanes-Oxley (SOX) Act, 2002 has skyrocketed the result expected of the public from the audit committees. The KPMG Audit Committee Institute (2003) states:

"Today, as never before, the role, responsibility, and accountability of the audit committee continue to be the focus of lawmakers, regulators, and shareholders. The audit committee's role in overseeing a company's financial reporting process, including the audits (and auditors) of the financial statements, is more visible and demanding" (p. 2).

Audit Committees discharge this enormous task by performing various functions within the firm.

Among the key functions expected of an audit committee is assisting the board and officers of corporate organizations produce accurate financial statements in compliance with relevant and applicable legal requirements and standards (Quinn, 2002; Spira, 2003). Al-Mudhaki and Joshi (2004) in their empirical investigations classified audit committees into three main groups: The financial statements and reporting, audit planning, and internal control and evaluation. The assertions noted above were upheld by Criúana and Fülöpa (2014) who explained that just like in earlier studies (Al-

Mudhaki & Joshi, 2004; Quinn, 2002; Spira, 2003), an audit committee has a duty to scrutinize and advise the main board on the reliability of financial reports. Criúana and Fülöpa further explained that audit committee task includes advising corporate boards on the effectiveness of internal controls and risk management strategies, ensure that a qualified, competent, and independent body audits the financial statements, and review the adequacy and effectiveness of internal audit activities. Therefore, the technical advice provided by audit committees to boards of corporate institutions serves as important quality assurance to the organizational financial operations. Consequently, the effectiveness of the board of every corporate organization is significantly influenced by the quality of work of the audit committee.

Additionally, Chatterjee (2011) in his qualitative research noted that audit committees exist in the corporate sector to perform numerous functions. The functions he enumerated were recommending the appointment and removal of auditors, determining their remuneration, reviewing the adequacy of internal controls and control procedures, and reviewing the adequacy of internal audit functions and structures. Chatterjee further stressed that audit committees were obliged to discuss with internal auditors any major findings on the financial statements and follow-up actions. The committee is also required to discuss with external auditors all areas of concerns during audit conferences and investigate reasons for defaults in repayments to depositors and debenture holders.

In carrying out their functions, the audit committee members have the responsibility to help the board effectively perform their duty of probity and effectiveness on financial controls (Davies, 2001; Spira, 2003). According to Quinn (2003), the frequent use of informal communications between the audit committee members, finance and internal control staff would enhance a good working relationship between the parties. Biggs (2000) likewise recommended that audit committees discuss with management explicitly the basis upon which the financial reports are prepared. In other words, audit committee represents a common ground on which matters relating to creative accounting, misapplication of accounting basis and policies are resolved. In contrast, Cohen et al. (2007) and Spira (2002) argued that most audit committees are established by corporate organizations as ceremonial creatures, symbolizing legitimacy with little or no vigilant monitoring. This implies that the mere existence of a favorable audit committee report on organizations activities does not necessarily lend credence to the financial statements unless the reports are objective, credible and unbiased with the board willing to implement on timely and objective manner any recommendation for improving internal control systems.

One of the critical roles of audit committee, therefore, is the appointment of external auditors and letting them understand that they must report to the audit committee primarily on all issues relating to their operations (Quinn, 2002; Spira, 2002). Audit committee is therefore ultimately responsible for appointing, evaluating, and when necessary, replacing the external auditors (Al-Mudhaki & Joshi, 2004; Al-Twajjry et al., 2002).

Biggs (2000) further stressed that apart from appointing external auditors, an audit committee must carry out an explicit evaluation of the independence of the auditors, a task considered difficult but necessary.

For an audit committee to be able to function effectively, it must be empowered to: investigate any matter within its terms of reference, obtain information considered necessary from any employee, seek legal or professional advice, engage the service of outsiders with relevant expertise when necessary (Chatterjee, 2011). Equally, for an audit committee to function effectively as an advisory body, it must not only be independent, but must also be manifestly and undoubtedly be seen to be independent (Emmerich, Racz, & Unger, 2005; Rainsbury, Bradbury, & Cahan, 2008). Similarly, Spira (1999) underscored that an audit committee must be independent in “fact”, not independence in “appearance”. Independent in fact, defined by (AICPA, 1991 as quoted in Spira, 1999) states that “To be independent, the auditor must be intellectually honest; to be recognized as independent, he must be free from any obligation to or interest in the client, its management, or its owners” (p. 264). The implication of empowering audit committees is that it offers members the mental attitude to act objectively in the best interest of the stakeholders.

The general principle underlying audit committee’s independence is that all or the majority of the members should be non-executive directors (Emmerich et al., 2005; Hossain, 2004). The ideal membership of an audit committee is three to five, consisting of persons with requisite literacy in finance and or accounting, (Beasley et al., 2009; Emmerich et al., 2005). Meanwhile, Criúana and Fülöpa (2014) in their analyses of audit committees’ role in enforcing corporate governance practices of companies listed on BSE and LSE concluded that the size of every audit committee must be directly linked to the company’s size and the expected workload. To further strengthen the powers of audit committees, the committee members must have written terms of reference covering their duties and responsibilities, annual disclosure regarding the extent to which they have met their responsibilities (Al-Baidhani, 2014; Al-Twaijry et al., 2002). Both scholars and practitioners alike believe that given the right environment, audit committee could affect the value of the firm. Therefore, the next section discusses how the weak or absence of audit committee affects organization.

4. THE IMPACT OF THE ABSENCE OR WEAK AUDIT COMMITTEE

Beasley et al. (2009) reviewing several companies in the United States, observed widespread deficiency in the audit committee’s oversight processes despite the existence of an independent audit committee consisting of persons with the requisite experience and professional credentials. Beasley et al. (2009) established that many audit committee members of U.S. public companies repeatedly strive to offer effective monitoring of financial reporting as a symbol of legitimacy with little or no vigilant monitoring. Al-Mudhaki and Joshi (2004) in a similar vein examined the composition, focus, and functions

of audit committees of some Indian listed companies (list of 500 companies from the Center for Monitoring Indian Economy). They found that the primary criterion adopted by Indian corporate institutions for appointing members of audit committees were; experience in similar positions, experience and knowledge in business, and accounting expertise. However, the use of audit committees in firms was found to be abysmal even though the Indian Companies (Amendment) Act, 2000 mandated this provision. Al-Mudhaki and Joshi (2004) additionally observed that only 14.6% committee members were independent non-executive directors of their respective audit committees. In addition, from the study of companies listed on FTSE 100, Criúana and Fülöpa (2014) established that only one firm had published independence criteria for appointing audit committee members. The study further revealed that seven companies had entirely independent non-executive audit committee members. This finding enumerated above evince the unwillingness of corporate bodies to operationalize audit committees effectively to perform their functions.

Companies that do not have independent audit committees may have difficulties in ensuring effective oversight and monitoring of the financial performance of the company. Chatterjee (2011) in a related study in India supports Al-Mudhaki and Joshi (2004) earlier assertion that lack of independence in representation and composition adversely affect the performance of audit committees. Chatterjee (2011) did recommend comprehensive reforms covering the composition, mode of recruitment, and level of expertise required of audit committee members in order to narrow the expectation gap between the shareholders and audit committee performance.

However, in recent times, the importance of audit committees are advanced in literature and legislative frameworks based on lessons of causes of corporate failure in the past. For instance, the Indian Companies code makes it mandatory for the establishment of audit committees. Nevertheless, similar laws in other parts of the world did not prescribe this practice as compulsory. Chambers (2005) purports that the term audit committee was first introduced in the UK by Western Railway Company in 1872. According to this study, even though the Cadbury Code (1992) recommended to boards of listed companies to establish audit committees, such directives were purely quasi-mandatory across the United Kingdom (UK). The study found that when Wm Morrison breached some of the provisions of the 1998 code (then existing code) in the publication of 2002 financial reports, it was only persuaded to comply in subsequent publications. Chambers (2005) further asserts that the Combined Code (2003) which was considered more complex followed the trend of Cadbury Code (1992) requiring boards of listed companies to either “comply or explain” the provisions of the Combined Code (2003).

It can be observed that the focus of firms is on controls side of corporate governance rather than on direction and strategy. This weakness, coupled with the fear of losing the confidence of the shareholders, contributed to the emergence of audit committees in the UK (Chambers, 2005). In contrasting the audit committees in the UK with the Chinese model,

Chambers found that the UK 2003 Code provided a detailed definition of audit committee duties than its Chinese version - the Code of Corporate Governance in China (CSRC 2001). The probable implication of this difference is that a UK audit committee is likely to provide a more active oversight service over risk management and non-accounting controls than a Chinese committee.

In another study, Al-Twaijry et al. (2002) acknowledged the presence of audit committees in Saudi Arabian's corporate sector. He established however that those committees had no working relationship with the external and internal auditors because of lack of clarity of roles. Organizations' corporate governance status is thus significantly influenced by the existence or otherwise of a strong audit committee. The next section of the paper discusses the impact of the audit committee on corporate governance.

5. IMPACT OF AUDIT COMMITTEE ON CORPORATE GOVERNANCE

One of the main reasons for the introduction of an audit committee as a key component of corporate governance is to ensure transparency in business practices (Criúana & Fülöpa, 2014; Demaki, 2017; Karu & Mishra, 2010). The essence of transparency in business practices borders on full disclosure of information considered by the market as relevant rather than mere fulfillment of mandatory requirements (CIMA, 2006). The foregoing observations presuppose that the audit committee in every corporate institution must be active and independent of the board of directors so as to impact positively on corporate governance. According to Chatterjee (2011), an active audit committee will enhance the credibility of financial disclosures of public companies, which will promote transparency. Some studies have found an inverse relationship between an independent and active audit committee and the likely occurrence of fraud. It is reported that companies with effective audit committees have less exposure for perpetuating fraud and other irregularities in reporting (Abbott et al., 2000; McMullen, 1996).

Full public disclosure of financial accounting information is expected to enhance the marketability of the company's shares, given that the company is performing well. Regrettably, a significant percentage of well-established companies have failed to benefit from the element of transparency of audit committee as they merely seek to fulfill regulatory requirements (Beasley et al., 2009; Cohen et al., 2007). To avoid these cosmetic practices, corporate institutions are encouraged to recruit experts and provide them with a clear mandate to make them effective, which will enable the companies to enjoy the full benefit of the committees. According to Spira (1999), several benefits are available in instances where audit committees perform their functions well. In some cases, companies have acquired concessionary loans from banks because of the assurance provided by the audit committee on the financial statements.

Similarly, audit committees consisting of majority non-executive directors enhance the separation of ownership and control (Al-Twaijry et al., 2002). This will consequently result in minimal agency costs due to the effective and improved

quality of monitoring (Nicholson & Kiel, 2007). Effective monitoring of business environment will ultimately minimize the risk of fraudulent reporting experienced in the famous cases of Xerox, WorldCom, Anderson, Merrill Lynch, Enron, Martha Stewart, Global Crossing, and Qwest Communications (Anderson & Orsagh, 2004; Spira, 1999; Spira, 2003). Quality monitoring seeks to prevent board and management from acting in their parochial interest to the detriment of shareholders or act in ways that may lead to eventual collapse of businesses.

6. AUDIT COMMITTEES AND INTERNAL AUDIT FUNCTIONS

An empowered audit committee also provides for the effective functioning of the internal audit unit. Internal audit function is a major component of good corporate governance and its role has been emphasized as critical for promoting achievement of corporate objectives. According to (CIPFA, 2005), the occurrence of famous corporate scandals has brought intense pressure on the internal audit function.

Furthermore, the leadership of the internal audit units ceded to the audit committees in recent time has also occasioned a change in the roles and responsibilities of the internal audit unit from simple appraisal, monitoring, and evaluation to being providers of assurance, renderers of consulting services, assistance, and providers of advice (Davies, 2009). The existence of an independent, competent, and tough-minded audit committee will compel the internal audit to place the interest of the shareholders above the interest of the directors. This will impact positively on investor confidence, hence the maximization of the value of the firm illustrated in the price appreciation of its shares. Effective functioning of internal audit aided by audit committees' effort, is consistent with the resource dependence theory of corporate governance. The resource dependence theory of corporate governance purports that the board's primary role involves supervising management in strategic planning and resources acquisition and disposal (Nicholson & Kiel, 2007). However, effective audit committees as utilized to operationalize the resource dependence theory in the Ghanaian corporate environment is another major corporate concern, especially in the banking sector of the country. The next section reviews the collapse of some indigenous banks in Ghana; predominantly attributable to corporate governance failures.

7. THE COLLAPSE OF SEVEN BANKS IN GHANA

Between the years 2017 and 2018, the Bank of Ghana announced the revocation of the licenses of seven banks in the country. The first announcement was made for two banks, UT Bank and Capital Bank. The Bank of Ghana announced that the two banks had been taken over by another bank, the GCB (Entsie, 2017). The Bank explained that UT and Capital Banks were deeply insolvent. Nevertheless, various agreements to resolve the insolvency issues through an action plan, which required the owners to inject additional capital, were unsuccessful. According to Entsie (2017), the central bank of

Ghana took the following actions to preserve the interest of depositors:

- Revoked the licenses of UT Bank and Capital Bank;
- Possessed the banks and appointed a Receiver;
- Execute a Purchase and Assumption Agreement to allowing Ghana Commercial Bank to take over all the deposits and purchases of selected assets;
- The Receiver was charged to dispose of the assets not taken over by GCB Bank;
- The Receiver was to settle the liabilities through the realization of the assets.

As stated by the Bank of Ghana, an independent investigation into the affairs of UT Bank and Capital Bank uncovered supervisory weaknesses, regulatory breaches, corporate governance failures, insider dealings, and accounting and financial improprieties, among many other issues.

Concerning the other five banks, the revocation of their license was announced in August 2018. Through a press release, the Bank of Ghana announced that the government had established a new indigenous bank named the Consolidated Bank (Bank of Ghana, 2018a). In the same release, the Bank of Ghana announced the revocation of the licenses of the following banks:

- uniBank Ghana Limited;
- The Royal Bank Limited;
- Beige Bank Limited;
- Sovereign Bank Limited;
- Construction Bank Limited.

The Bank of Ghana identified several factors, some of which were financial including inadequate capital, and high levels of non-performing loans (Bank of Ghana, 2018a). Also, weak corporate governance was identified as underpinning the predicament of the banks. Some related party transactions were deemed questionable. For example, the Official Administrator appointed for uniBank discovered that the Bank had irrecoverable loans advanced to shareholders, related and connected parties totaling GH¢3.7 billion (approximately USD 762,695,966.18) – thus effectively putting uniBank beyond rehabilitation (Bank of Ghana, 2018a).

In the case of Sovereign Bank Limited, an on-site examination carried out by the Bank of Ghana in March, 2018 exposed a number of irregularities. Prominent among these practices was poor credit risk and liquidity risk management procedures, which resulted in the bank recording non-performing loans, representing 78.9 percent of total loans granted. Similar incidences were recorded in the case of the Beige Bank and the Construction Bank.

8. MEASURES BY THE BANK OF GHANA TO STRENGTHEN THE FINANCIAL SECTOR

In August 2018, the Bank of Ghana issued a press statement indicating the establishment of a unit within the bank called “Office of Ethics and Internal Investigations”. The objective is to “strengthen good governance within the Bank and to promote the highest standards of ethical conduct commensurate with the Bank’s mandate”. Again, in September 2018,

the Bank of Ghana issued its corporate governance directives as part of the measures to strengthen the banking sector. The Bank of Ghana allowed a grace period of up to 31st December for all banks to have the following:

- Business strategy;
- Board qualification and composition;
- Board size and structure;
- Directors’ independence;
- Board Secretary;
- Separation of powers;
- Other engagement of directors;
- Board sub-committee.

The directive also contains regulations on the tenure of office of managing directors, board chairs, and non-executive board members. The directive also made a strong emphasis on the independence of boards and their appointment.

9. REVIEW OF THE MEASURES BY THE BANK OF GHANA

More regulatory measures were introduced by the central bank of Ghana (the Bank of Ghana) to strengthen the corporate governance machinery in the banking sector. For instance, the Bank of Ghana’s Corporate Governance Directive introduced in March 2018 was revised in August 2018 in order to limit the tenure of key positions in the Banks and Specialized Deposits Taking Institutions in the country (Bank of Ghana, 2018c). Sections 2(a), 3(a) and 4(a) of the revised Directive limit the tenure of the Chief Executive Officer (CEO)/Managing Director (MD), Board Chairman, and non-executive Directors to four, three, and three years respectively. Hitherto this directive, there was no limit to the tenure for all these important positions. The revised Directive further specifies that the tenure of the CEO/MD, Board Chairman, and non-executive Directors may be renewable for only two, one, two more terms respectively. In the case of officers in current engagements, Sections 2(b), 3(b), and 4(b) states that the CEO/MD, Board Chairman, and non-executive Directors respective current contracts may run in full but shall not be renewed if they cumulatively served for up to or more than twelve (12), six (6), and nine (9) years. Sections 2(c), 3(c) and 4(c) mandated regulated financial institution with CEO/MD, Board Chairman, and non-executive Directors on non-fixed terms, as of the date of coming into force of the revised Directives to submit to the Bank of Ghana for consideration, a succession plan not later than 31st December 2018.

The introduction of these new directives to protect the interest of shareholders was triggered by the failure of the respective management of the seven indigenous banks. However, it is worth noting that these directives seem to have concentrated on specific positions rather than the entire corporate governance structure. It is argued that the composition of the members of the board of a bank is as important as its ability to provide an effective strategic direction and see to proper supervision of the management. Confirming this assertion, Adewale (2013) indicated that a board’s composition and qualifications of its members, especially the non-executive directors, is critical to active and effective functioning of accountability structure within the organization.

Secondly, the Bank of Ghana's current directive mentioned the establishment of board committees but did not provide a clear minimum standard for the committees that would provide assurance that the interest of stakeholders would be protected. Without a mechanism to provide a strong check and control over the activities of the board, the issues that have plagued the banking sector would not be addressed.

Furthermore, the Bank of Ghana seems to place stronger reliance on its own monitoring and supervision systems with the establishment of the new office. The establishment of the Office of Ethics and Internal Investigations by the Central Bank of Ghana evidences this claim. According to Bank of Ghana (2018b), the Office of Ethics and Internal Investigations will not only strengthen good governance within the Bank in the country but also promote the highest standards of ethical conduct that will commensurate the Bank's mandate. But strengthening internal mechanisms of banks would not prevent the anomalies of external bodies from occurrence. Stronger internal mechanisms should also ensure that any irregularity and non-conformance would be detected early and the necessary steps are taken to address the issues before degenerating.

Surprisingly, a key component for strengthening the internal mechanisms of the governance system towards ensuring compliance with the legal requirements and check the activities of the board as a whole and the individual members, which is the audit committee, was not given prominence in the Bank of Ghana directive. This is a fundamental weakness in the directive, giving the important role of the audit committee regarding compliance and security of the interest of stakeholders. Audit committee's presence induces positive performance of the board (Bhagat & Black, 1999). But, the absence of audit committees facilitates many fraudulent financial reporting practices in organizations (Chambers, 2005), which could lead to their collapse in the long term. For all the corporate scandals that have been recorded, there were boards of directors. There has not been evidence of properly functioning audit committees. This was an opportunity for the Bank of Ghana to utilize this important structure.

Again, an effective audit committee strengthens the performance of internal audit to review the effectiveness of internal controls, adding another layer for protection to the monitoring role to be performed through regulation. The Institute of Internal Auditors (2003) discovered a strong linkage between the effectiveness of the internal audit supervision and the quality and reliability of the information provided by the unit. This brings to bear the importance of the audit committee in providing the independent supervision and directions to the internal audit function (DeZoort et al., 2002; Jaimes-Valdez et al., 2017; Spira, 1999). It is proven that the changing face of the quality of information produced through the collaborative effort of the audit committee and the internal audit unit has resulted in improvement in corporate performance (Davies, 2001; Jaimes-Valdez et al., 2017). Recently, Zraiq and Fadzil (2018) examined the relationship between audit committees and performance among Jordanian firms. The results indicated a constructive connection

between audit committee size, earnings per share and return on assets. The result is consistent with the respective findings of Al-Matar et al. (2014), and Janamrungsakul and Issarawornrawanich (2015), who found a positive correlation between audit committee meetings and firms' performance.

An active audit committee comprising executive and non-executive members would ensure commitment towards protecting stakeholders' interest. Audit committee neutralizes likely management biases through the appointment of independent and competent external auditors, reviewing their work, fixing, and reviewing their fee (Chatterjee, 2011). The fact that management bias on negotiating auditor's remuneration is neutralized, communication networks are enhanced and accurate and timely financial statements are released, shareholders' confidence is likely to rise, leading to increase in the price of the company's share in furtherance of the objectives of value maximization. The implication of this to shareholder in the banks is the increased in the marketability of their shares in the capital market and the associated price gains. Nicholson and Kiel (2007) argued that close monitoring of self-interest actions of management by the audit committee means less opportunity for managers to carry out shameful acts at the expense of shareholders. A reference to the banking crises again can illustrate how the absence of an effective audit committee had facilitated scandalous activities (Bank of Ghana, 2018a).

The effectiveness of audit committee work has a direct relationship with the output of external auditors. Spira (2002, 2003) and Jaimes-Valdez et al. (2017) explained that monitoring activities performed by an independent audit committee provide reasonable assurance to external auditors that such reports can be reliable. This will influence the external auditors to focus the scope of their work on key risk areas and consequently enhance their efficiency and reduced audit fee. Spira (1999) also confirmed instances of companies obtaining favorable tenor on credit facilities due to the credence of the audit committees' work. Given that companies enjoy low interest rates, coupled with reduced audit fee due to activities of audit committee, general expenses incurred is likely to decrease, resulting in improvement in the company's net profit and consequently its earnings and market value per share. This is another opportunity that the indigenous banks missed due to their weak corporate governance structures. Here again, the Bank of Ghana illustrated the unsustainable operations of some of the banks as consequential to the inadequacy of earnings to cover the cost of operations.

10. CONCLUSION

The issue of accountability in corporate organizations is difficult to ignore following major corporate scandals in most parts of the world and the experience Ghana has had recently in the banking sector. Given the compelling need to sustain stakeholders' confidence in the financial statements presented, it is more important, now than ever before, to take issues of accountability in the corporate environment more seriously. This study demonstrates a solution to improving corporate

performance and value creation and call on regulators and policy makers to emphasize the role of audit committee in attaining corporate objectives; given that, audit committees provide an additional layer for monitoring governance functions in corporate organizations. Audit committee should, therefore, be embraced by every corporate institution to curtail the likely occurrence of corporate scandals. As the presence of audit committee in organizations limit agency cost and improve quality of monitoring, the business risk will also reduce while increasing public confidence on corporate managers' decisions would ultimately lead to appreciation in the prices of shares of traded companies.

The Bank of Ghana, in its quest to "restoring confidence and building a resilient Banking system for Ghana" should emphasize the importance of audit committees in strengthening corporate governance systems. The production of the guidelines on corporate governance is an opportunity for the bank

to make audit committees mandatory for all banks. More details in terms of composition, tenure and size of audit committees for banks should be prescribed clearly and the work of the audit committee included in the monitoring activities of the bank of Ghana. This measure is the most effective mechanism that would significantly enhance the regulatory functions of the Bank as an effective audit committee will lend credence to the financial information produced within the banking sector.

For the monitoring of the work of the audit committees of banks, the Bank of Ghana should do this in collaboration with all key stakeholders, especially, other regulatory bodies including the Institute of Internal Auditors (Ghana), the Institute of Chartered Accountants Ghana (ICAG) and the Ghana Stock Exchange. The ICAG, for instance, should strengthen its quality assurance and monitoring function and extend it to cover all accountants working for banks and other firms listed on the Ghana Stock Exchange.

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