

**UNIVERSITY OF EDUCATION, WINNEBA**

**THE ROLE OF FINANCIAL REPORTING AND AUDITING IN  
ENHANCING CORPORATE GOVERNANCE: EVIDENCE FROM THE  
UNIVERSITY OF EDUCATION, WINNEBA**



**ADZOGOU EMMANUEL AKPENE**

**MASTER OF BUSINESS ADMINISTRATION**

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ENHANCING CORPORATE GOVERNANCE: EVIDENCE FROM THE  
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**ADZOGOU EMMANUEL AKPENE  
(220011059)**



**A dissertation in the Department of Accounting,  
School of Business, submitted to the School of Graduate  
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of the requirements for the award of the degree of  
Master of Business Administration  
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in the University of Education, Winneba**

**NOVEMBER, 2023**

## DECLARATION

### Student's Declaration

I, Adzogou Emmanuel Akpene, declare that this dissertation, with the exception of quotation and references contained in published works which have all been identified and duly acknowledged, is entirely my original own word, and it has not been submitted in part or whole, for another degree elsewhere.

**Signature:** .....

**Date:** .....

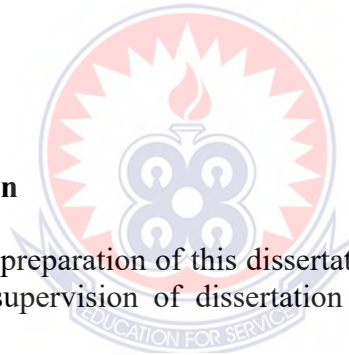
### Supervisor's Declaration

I hereby declare that the preparation of this dissertation was supervised in accordance with guideline for the supervision of dissertation laid down by the University of Education, Winneba.

**Supervisor' Name:** MR. ABDULAI ENUSAH

**Signature:** .....

**Date:** .....



## **DEDICATION**

This dissertation is dedicated to my Children and the entire family.



## ACKNOWLEDGEMENT

I would like to acknowledge and give my warmest thanks to my supervisor Mr. Abdulai Enusah who made this work possible His guidance and advice carried me through all stages of writing my thesis.

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## ABSTRACT

The purpose of the study was to assess the role of financial reporting and auditing in enhancing corporate governance in University of Education, Winneba. Descriptive research design was used. Questionnaire was the instrument used to gather data for the study. The data from the questionnaire were analyzed using simple descriptive frequency count and percentages. Regarding the role of financial reporting in enhancing corporate governance at University of Education, it was found that in UEW, financial reporting standards are effective and help in the reduction of operational and administrative costs. Financial reporting standards in UEW promote transparency and accountability. Financial reporting standards by finance officers, heads of departments and administrators safeguards against servicers and contractors that provide inferior workmanship. Furthermore financial reporting standards play a tremendous role in upsurging budgetary saving; hence have the power to increase profitability. It also emerged from the study that financial reporting standards promote trust and commitment between UEW and its suppliers. Finally, the study revealed that UEW adopts financial reporting standards that ensure that materials products and services continue to be available. Concerning the role of auditing in enhancing corporate governance at University of Education. The findings suggests that auditing in UEW is independent and complies with professional standards and helps evaluate the effectiveness of internal controls. Also in UEW auditing acts as a watchdog for financial operations and financial reporting practices and serves as a yardstick to ensure well-identified, estimated, and realistic budgets. The findings further prove that effective internal audit function can play a significant role within the corporate governance framework of UEW. Finally, it emerged from the study that internal auditors keep a close relationship with management and advise management on how to improve operations. The study recommended that finance officers, heads of department, senior administrators and management should always support the financial reporting and auditing processes because it is central in enhancing transparency and accountability with the university. Positive relationships should be built by finance officers, heads of department, senior administrators and management. This will help them to ensure good financial management and effective auditing to enable the institution achieve its aims, goals and objectives.

## CHAPTER ONE

### INTRODUCTION

#### 1.1 Background to the Study

Corporate governance is a system of rules, practices, and processes that a firm uses to balance the company's stakeholders, senior management, executives, employees, and communities (Tarchouna, Jarraya, & Bouri, 2017). Selmier (2016) defined corporate governance as the framework of rules that the board of directors uses to ensure the company operates transparently while maintaining fairness. Corporate governance is a valuable tool to mitigate the conflicts of interest between stakeholders and management (Al-Matari & Al-Arussi, 2016). Garcia-Sánchez and Garcia-Meca (2018) identified several fundamental corporate governance principles that are apparent regardless of the company definition of corporate governance. Accountability, integrity, transparency, and responsibility are the basic principles that several researchers use to interpret corporate governance. Since there is no standard definition of corporate governance among researchers, management scholars define corporate governance concerning their company (Callahan & Soileau, 2017).

Corporate governance is the structure and processes used by management to improve corporate accountability, business prosperity, and improving the shareholder's investments while protecting their other interests (Vadasi et al., 2020). While the individual definitions of corporate governance vary, they all contain one crucial element concerning how corporate governance supervises and controls the organization's management managerial behavior (Silva et al., 2017). Corporate governance allows companies to decrease the operational risk of the company by using adequate internal and external controls (Akhidime, 2019). Corporate governance comprises the rules, regulations, and mechanisms adopted by the

company to ensure management does not have a conflict of interest with customers, suppliers, stakeholders, society, employees, managers, and executive directors of the company (Akhidime, 2019).

Corporate governance allows companies to increase profits and also reduce agency conflict. Corporate governance practices are directly related to company performance and investor confidence and protection (Akhidime, 2019). The quality of corporate governance is contingent upon the regulatory framework (Ararat et al., 2017). Corporate governance practices rely on company practices and federal practices (Awolowo et al., 2018). Effective corporate governance can prevent scheming by shareholders and misconduct by management, reducing the risk for small investors. Companies that do not have misconduct or scheming by management, and shareholders tend to have higher quality corporate governance.

Regulatory authorities enhance corporate governance rules, regulations, and practices, which are a substantial piece of strengthening and improving the basis for the company's long-term and short-term economic performance. Corporate governance is a crucial piece to market stability and economic development, shown through research (Bonna, 2011; Chahine & Safieddine, 2011). Corporate governance is crucial to protect the interest of all the stakeholders and shareholders. Companies with weaker corporate governance have higher input costs, lower labor productivity, lower equity returns, lower value, and lower operating performance than companies with good corporate governance (Zaharia & Zaharia, 2012). Shareholders can see economic growth and an increase in wealth due to good corporate governance (Cretu, 2012). Appropriate application and thorough enforcement of effective corporate governance mechanisms are crucial to the survival and growth of publicly listed firms (Popescu,

2019). Strong corporate governance helps leaders meet their legal requirements and alleviate any conflicts of interest. Corporate governance can influence a firm's financial reporting.

Financial reporting is used by organizations to demonstrate the business activities and financial performance of the company. Financial performance in institutions can present a challenge in research both conceptually and in measurement. According to the Stewardship model, every business needs to make a profit to increase its value (Bigus & Hillebrand, 2017). While this is true, not all businesses have the same definition of value; researchers use two key reports when measuring financial performance: accounting perspectives and market perspectives. Most recent empirical studies use the accounting perspective to measure the company's financial performance; however, this leaves the market-based view under-examined (Bigus & Hillebrand, 2017). The specific accounting rules and principles are chosen based on the objectives and decisions of management. Accounting measures for financial performance in recent studies include return on assets (ROA), the return on equity (ROE), and net interest margin (NIM) (Douissa & Azrak, 2017). Company's financial information is validated by external auditors and contained in the published financial statements. The financial statements are presumed to be of high quality and free from manipulations (Balakrishnan & Ertan, 2018). However, published financial statements can be biased and open to manipulation (Akhidime, 2019).

In a public institution such as the University of Education, Winneba, financial reporting is sticking to approved formats per the Public Financial Management Act stating a summary of income and expenditure as well as balance sheet per international public accounting standards.

For external audit the Auditor-General or its appointed representative conducts an annual audit of the accounts of the University of Education, Winneba to ensure it complied with the approved budget and that proper books were kept and the accounts are fair. The PFM Act clearly makes provision for Audit Committee and its composition and how it interfaces with the External Auditor. The study is being conducted to reveal the extent to which University of Education, Winneba complies with provisions in relation to financial reporting and auditing.

## **1.2 Statement of the Problem**

In the aftershock of many entities' global financial crises and financial scandals, corporate governance had become a substantial issue. Many solutions have been built upon effective corporate governance mechanisms and external monitoring mechanisms (El Khoury, 2018). The mechanisms were put into place to reduce the inefficiencies arising from adverse selection and moral hazard (Agrawal & Cooper, 2017). There are two types of mechanisms: internal audit mechanisms and external monitoring mechanisms. The companies' activities are monitored and controlled through internal mechanisms, while external mechanisms comprise the control exercised over firms by external stakeholders (Onofrei, Firtescu, & Terinte, 2018). Board independence has been an area that regulators have focused on because it is crucial to reduce the influence on the CEO's influence over the board of directors (Abdelbadie & Salama, 2019). Regulations only require a certain amount of board members to be independent. The foundation for the regulations is that if board members are independent of bank executives, they are more likely to protect the shareholders (John et al., 2016). An independent board is crucial because they offer control mechanisms that allow firm's to achieve their objectives (Chahine & Safieddine, 2011). Investigating and providing evidence on the relationship between

corporate governance, financial reporting, and auditing can enable the firm's executives to comply with the legal requirements (Bonna, 2011). It is against this background that the study is being conducted.

### **1.3 Purpose of the Study**

The purpose of the study was to assess role of financial reporting and auditing in enhancing corporate governance using University of Education, Winneba as a specific case study.

### **1.4 Research Objectives**

The following research objectives were developed to guide the study:

1. To assess the role of financial reporting in enhancing corporate governance at University of Education, Winneba.
2. To find out the role of auditing in enhancing corporate governance at University of Education, Winneba.
3. To examine the relationship between financial reporting, auditing and corporate governance.

### **1.5 Research Questions**

The study sought to find answers to the following questions:

1. What is the role of financial reporting in enhancing corporate governance at University of Education, Winneba?
2. What is the role of auditing in enhancing corporate governance at University of Education, Winneba?
3. What is the relationship between financial reporting, auditing and corporate governance?



### **1.6 Significance of the Study**

Corporate governance is essential for institutions because accounting standards, regulations, legislation, and economic theories are not effective in mitigating conflicts between the board of directors and shareholders (Rouf, 2012). Furthermore, corporate governance can enhance the institution's financial performance and market value when publicly listed (Bonna, 2011). The effectiveness and efficiency of corporate governance systems can be different in mature and new programs.

### **1.7 Scope of the Study**

The study is to assess role of financial reporting and auditing in enhancing corporate governance using University of Education, Winneba as a specific case study. The study also investigated the relationship between financial reporting, auditing and corporate governance.

### **1.8 Limitation of the study**

The study assessed the role of financial reporting and auditing in enhancing corporate governance in the University of Education, Winneba. Other organizations may have their own internal policies and governance structure which will influence their financial reporting.

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

The study was organized under (5) chapters. Chapter one comprises the background to the study, statement of the problem, purpose of the study, objectives of the study, research questions, significance of the study, delimitation and organization of the study. Chapter two reviewed related literature which includes theoretical framework and the review of major themes highlighted in the research questions. Chapter three dealt with the research methodology for the study which covered philosophical

paradigm, research approach, research design, target population, sample size and sampling techniques, research instrument, data collection procedures, data analysis procedures and ethical issues. Chapter four focused on data analysis, data presentation and interpretation of data. Chapter five focused on summary of the findings, conclusions, recommendations and suggestions for future studies.



## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

This chapter reviews literature related to the problem under investigation. The review discussed Theoretical framework of the study, Concepts and Definitions of Corporate Governance, Corporate Governance Mechanisms, Financial Reporting, Corporate governance and financial reporting quality, Internal audit quality and financial reporting quality and Auditing and corporate governance

#### **2.2 Theoretical Framework**

The study was underpinned by Foundational theory/agency theory and Institutional theory

##### **2.2.1 Foundational Theory/Agency Theory**

The proponents of agency theory use a type of agreement that connects owners and stakeholders in a principal-agent relationship. As per this agreement, managers have one objective: to satisfy the interests of the owners. Consequently, any variation from this agreement results in an agency problem (Carney, Gedajlovic, & Sur, 2011). The owners in corporations or banks are also the shareholders. Furthermore, the agency problem arises when the well-being of the agent relies on the principal. An agency problem occurs when management sets goals that conflict with the purposes of the owners. Since the agent acts on behalf of the principal, the principal is affected by the agent's actions. An executive can pursue their interests even if they do not reflect the interests of the shareholders. Executives often have information about the company, and they can exploit company resources to increase their profit, which can lower the owner's profits (Seal, 2006). Researchers find ways to minimize any potential

conflicts between managers and shareholders (Ajili & Bouri, 2018). The conflict needs to be resolved between managers and shareholders and between any internal and external shareholders. When the conflict is minimized, the company performance and shareholder profits increase (Akhidime, 2019). In many cases, the conflict between managers and shareholders results from a lack of corporate governance mechanisms. Corporate governance mechanisms need to be in place to ensure effective and efficient control while also allowing approval and sanctioning management decisions that minimize agency conflict (Al-Maghzom et al., 2016). Even though agents act on behalf of the principal, it is important to monitor corporate governance mechanisms continuously.

Monitoring the mechanisms ensures that the potential conflicts between agents and principals are mitigated (Al-Maghzom et al., 2016). Company performance and market value can be enhanced by reducing agency problems. A reduction in agency problems occurs when there is a continuous oversight over management. The board of directors is essential to maintain oversight over management and ensure management is working in the shareholders' best interests. Corporate governance mechanisms are essential to maintaining supervision because it monitors management behavior and protects the shareholder's and ensures the interests between the two are aligned (Ali, 2018). Advocates of agency theory identified several corporate governance mechanisms that help minimize conflicts of interests between the agent and principal. One corporate governance mechanism includes incentives to reward executives financially when they maximize stakeholder's profit. Some of the most typical incentives include bonuses and stock options, focusing on the company's long-term value maximization and stakeholder profit (Bebchuk & Hirst, 2019).

Continuing to monitor the incentives and rewards helps align stakeholders' interests with the rewards of management (Bebchuk & Hirst, 2019). Hence, the shareholders choose individuals to represent them on the board of directors to ensure capital is applied to the intended purpose (Callaghan, 2019). Agency costs are incurred by stakeholders (principals) when they reduce the failings of management and the board by hiring external auditors (Carney et al., 2011). On the other hand, owners incur agency costs when they have to overcome the opportunistic activities of management (Al-Matari & Al-Arussi, 2016). Therefore, agency costs occur when there is a misalignment between owners and managers and their interests (Callaghan, 2019). When there is an alignment between the objectives of management (agent) and shareholders (principals), then the agency cost is lowered (Carney et al., 2011).

### **2.2.2 Institutional theory**

Institutional theory is another lens through which researchers view corporate governance. Proponents of institutional theory focus on the transactions between agents and the firm and the uncertainties involved (Krenn, 2016; Vadasi, Bekiaris, & Andrikopoulos, 2020; Zulfikar, Lukvianman, & Suhardjanto, 2017). Krenn (2016) defined the institutional environment as a set of legal, social, economic, and political conventions that generate the initial source for creating products, services, and trade. Institutional theory has a robust external environment that influences companies in a transitional economy (Krenn, 2016). Banks are not just a place where cash transactions happen and cannot survive without financial legitimacy (Vadasi et al., 2020). Institutional theory is most effective in environments with high levels of legislation. In these environments, corporate governance is considered an arrangement where investors expect an adequate return on their investment. One component of institutional theory is the openness of bank practices and human behavior. Thus,

social culture becomes an integral part of the institutional theory (Zulfikar et al., 2017).

### **2.3 The Concepts and Definitions of Corporate Governance**

Corporate governance has become prevalent in the last decade. Within the last decade, more companies have seen the importance of corporate governance and have begun implementing it. Corporate governance is not only discussed in financial literature but also academic literature. The discussion includes corporate governance, including company ownership structure, economic efficiency, product competition, the international context, and general qualities (Awolowo et al., 2018). Agency conflict between stakeholders and managers leads to corporate governance issues. Even having the most efficient contract does not eliminate the conflict of interest between two parties (Ali, 2018). Corporate governance is a tool used by companies to solve potential conflicts of interest. Through the implementation of corporate governance, leaders can implement the strategic goals and objectives of the company. Corporate governance allows companies to decrease the operational risk of the company by using adequate internal and external controls (Akhidime, 2019).

Corporate governance comprises the rules, regulations, and mechanisms adopted by the company to ensure management does not have a conflict of interest with customers, suppliers, stakeholders, society, employees, managers, and executive directors of the company (Akhidime, 2019). Corporate governance allows companies to increase profits and also reduce agency conflict. Corporate governance practices are directly related to company performance and investor confidence and protection (Akhidime, 2019). The quality of corporate governance is contingent upon the regulatory framework (Ararat et al., 2017). Corporate governance practices rely on

company practices and federal practices (Awolowo et al., 2018). Effective corporate governance can prevent scheming by shareholders and misconduct by management, reducing the risk for small investors. Companies that do not have misconduct or scheming by management, and shareholders tend to have higher quality corporate governance. Regulatory authorities enhance corporate governance rules, regulations, and practices, which are a substantial piece of strengthening and improving the basis for the company's long-term and short-term economic performance. There are two main categories of corporate governance: the insider system and the outsider system. Stakeholders in the insider system can have a conflict of interest between weak and substantial shareholders. However, the outsider system can have a conflict of interest between managers and detached shareholders (Ararat et al., 2017). There are two main corporate governance goals integrity of management and guidance to maximize shareholders (Akhidime, 2019).

Companies that have sound corporate governance also have many benefits. One benefit of structured corporate governance is that it can increase the institution's reputation. Capital markets are also increased due to structured corporate governance, which ensures the distribution of resources in a more efficient manner (Bonna, 2011). A potential crisis is eliminated while still guaranteeing the prosperity of the community. To have effective corporate governance, managers need to decrease capital cost while increasing liquidity and financing opportunities. Maintaining good corporate governance allows a company to overcome any potential conflicts swiftly. Institutions that continue to have efficient corporate governance tend to be more successful than other institution's (Drum et al., 2016). Investors tend to be willing to pay a higher price for shares when a company has well-organized corporate governance (Al-Maghzom et al., 2016). Corporate financial performances can be

improved by having effective corporate governance. Effective corporate governance can help solve conflicts of interest between the institution and stakeholders (Krenn, 2016).

Effective corporate governance is effective based on the rules and structure of board of directors, managers, and shareholders (Isik & Folkinshteyn, 2017). While government regulation can be useful, there is a chance of overregulating corporate governance. If the government overregulates corporate governance, companies may not see economic and corporate stability. Some other problems with the overregulation of corporate governance are that companies may have poor performance and a decline in the stock market value. Overregulation of corporate governance can increase corporate governance while limiting managerial initiatives, leading to negative performances (Douissa & Azrak, 2017; Inya et al., 2018). Corporate governance concepts. To better understand corporate governance, it is essential to understand the concept of corporate governance. Corporate governance equally distributes the power between three main groups: the board of directors, managers, and shareholders. Dividing up the power ensures that management decisions do not conflict with the interests of the shareholders (Isik & Folkinshteyn, 2017). Managers need to continually work in the best interests of the shareholders and the company while avoiding the potential to do what is best for themselves.

One apprehension of corporate governance is managing the relationship between the board of directors, managers, and shareholders. Corporate governance has both narrow and broad concepts (Callahan & Soileau, 2017; Chan & Kogan, 2016). The narrow corporate governance concepts identify the relationships between shareholders, the board of directors, managers, auditors, and others (Chan & Kogan,



2016). However, the broad concept is how the company maintains honesty and openness, which is essential for the efficiency of capital allocation, market confidence, and development of the companies (Callahan & Soileau, 2017). Both the narrow and broad concepts work together to efficiently and effectively allocate company resources (Chan & Kogan, 2016).

The restraint approach and the large approach are two essential approaches to corporate governance. A restraint approach helps achieve the owner's interests by defining the totality and economic means (Hendry, 2001). The types of investors in any company can play a significant part in the orientation and implementation of robust corporate governance. In a broader perspective, corporate governance represents the mechanisms and norms applied to complement and protect the shareholder's interests (Agrawal & Cooper, 2017). The corporate governance philosophy depends on the transparency and disclosures that improve shareholder's trust for a company.

Corporate social responsibility trends creating a business that accepts the ethical principles and standards (Korpi & Clark, 2017). Hence, stakeholder's rights are protected and allow companies to focus on financial and operational performance. Corporate governance definitions. There is not a universal corporate governance concept within regional banks in the United States. Additionally, researchers and scholars utilize different organizational governance definitions, instrumentations, and guides depending on the research (Marsidi, Annuar, & Rahman, 2017; Wilbanks, Hermanson, & Sharma, 2017). Therefore, several different definitions have been used to measure corporate governance. However, the descriptions of corporate governance can generally be classified into two categories. The first category identifies financial

structures, growth, efficiency, performance, and behavioural relationship with shareholders (Zainuldin, Lui, & Yii, 2018). The financial structures look at the behaviour patterns of banks based on contemporary research. The second category of definitions looks at the framework of corporate governance and the rules and regulations that govern, control, and supervise company activity (Garcia-Sánchez & Garcia-Meca, 2018; Selmier, 2016).

The second category looks more at the normative framework of corporate governance, also based on contemporary research. Even though the two categories are different, there are some overlapping ideas. For this study, several definitions were discussed, mainly the ones that were consistent with agency theory. Corporate governance is a system of rules, practices, and processes that a firm uses to balance the company's stakeholders, senior management, executives, employees, and communities (Tarchouna, Jarraya, & Bouri, 2017). However, Selmier (2016) defined corporate governance as the framework of rules that the board of directors uses to ensure the company operates transparently while maintaining fairness. Garcia-Sánchez and Garcia-Meca (2018) identified several fundamental corporate governance principles that are apparent regardless of the company definition of corporate governance.

Accountability, integrity, transparency, and responsibility are the basic principles that several researchers use to interpret corporate governance. Since there is no standard definition of corporate governance among researchers, management scholars define corporate governance concerning their company (Callahan & Soileau, 2017). While the individual definitions of corporate governance vary, they all contain one crucial element concerning how corporate governance supervises and controls the organization's management managerial behavior (Silva et al., 2017). The phrase

corporate governance refers to the control mechanism that governs the management activities monitored by the board of directors (Vadasi et al., 2020). The companies' system that is controlled and monitored is called corporate governance (Heenetigala, Armstrong, & Clarke, 2011). The traditional definitions of corporate governance do not focus on the guidance that shareholders exercise on the board of directors and management to ensure they behave in the best interests (Yeh, 2017). Furthermore, corporate governance has many definitions to avoid the traditional approach (Vadasi et al., 2020). The traditional corporate governance approach focused on the legal relationship between managers, shareholders, and the board of directors. Corporate governance is a system of rules and regulations that allow the institutional market to arise to pursue different categories (Ghosh, 2018).

To increase the company's future profits, a company needs to maintain stable corporate governance. Another definition often associated with corporate governance is a system where firms are governed, monitored, and directed through the distribution of rights from the board of directors, shareholders, and management (Douissa & Azrak, 2017). The purpose of this definition shows how the relationship between boards of directors and management are controlled and governed by the shareholders. Furthermore, corporate governance is a set of rules that monitor the connection between the companies' principals and agents and how they relate to the rights and responsibilities of shareholders (Adiloglu & Vuran, 2012). This particular definition emphasizes the system used to regulate the controls of the company. Hence, corporate governance identifies the policies, procedures, and rules that the company must follow to properly control and monitor company performance (Primec & Belak, 2018). Corporate governance effectiveness depends on the broader environment in which it functions. For example, legislative environments include enforcement and

efficient shareholder protection laws and general environmental support for businesses (Zainuldin et al., 2018). The focus of these definitions is how corporate governance governs, monitors, and controls companies by identifying responsibilities and rights among managers, the board of directors, and shareholders (Inya et al., 2018). The most common definition used for corporate governance is the distribution of rights and responsibilities among different companies (Cretu, 2012). Once the rules and responsibilities have been identified, the company sees an improvement in the company's decisions, activities, and affairs. Hence, this definition focuses on corporate governance that provides the proper foundation to set the company objectives and determines how the goals are achieved while monitoring company performance. Corporate governance is often seen as a crucial component for companies that need to improve their economic efficiency and growth while increasing investor confidence. A corporate governance system encompasses the connection between the board of directors, shareholders, and management. It also creates how the company sets objectives while monitoring and controlling the process (Kumar, Kumar, Gupta & Sharma, 2017).

Another definition for corporate governance focuses on the set of mechanisms that affect a company to determine the correct decisions to increase performance while also increasing the market value of the company (Abdelbadie & Salama, 2019). Furthermore, corporate governance shows investors the returns that the shareholders received on their investments. This definition of corporate governance directly relates to the principal-agent relationship in agency theory. Agency theory focuses on the delegation to management to act in the best interests of the shareholders. Management also has responsibilities to the shareholders, leading to an adverse selection that leads to agency costs (Maxfield, Wang, & de Sousa, 2018). Therefore, corporation activities

are greatly affected by the size, composition, and involvement of the board of directors. The board of directors controls and monitors how management acts on behalf of the shareholders. The final definition of corporate governance addressed is the structure and processes used by management to improve corporate accountability, business prosperity, and improving the shareholder's investments while protecting their other interests (Vadasi et al., 2020). The basis of this definition is the interests of the shareholders and how they connect with the company's strategic decisions.

In this definition, a company's structure and process enhances the shareholders' wealthy corporate governance (Ghosh, 2018). The different groups of definitions connect corporate governance to both company prosperity and the shareholders' increased value. The main component of corporate governance definitions is that both the company and shareholders see an increase in value or profit. The differences between the above definitions of corporate governance illuminate the different views of researchers. The variance between the different definitions is because of the diverse subjects covered by corporate governance and different researchers' viewpoints. Every scholar has a different intellectual background or interest that affects their definition of corporate governance. The definitions of these scholars are revised based on the topic researched. Even with these sizable numbers of corporate governance definitions, there are some common aspects. The previous descriptions all refer to a conflict of interest between management and shareholders, and a conflict of interest between insiders and outsiders when management and ownership are separate (Vadasi et al., 2020). Corporate governance works best when the board of directors, managers, shareholders, auditors, and employees all have the same objective in mind for the company.

## 2.4 Corporate Governance Mechanisms

In the aftermath of many entities' global financial crises and financial scandals, corporate governance had become a substantial issue. Many solutions have been built upon effective corporate governance mechanisms and external monitoring mechanisms (El Khoury, 2018). The mechanisms were put into place to reduce the inefficiencies arising from adverse selection and moral hazard (Agrawal & Cooper, 2017). There are two types of mechanisms: internal audit mechanisms and external monitoring mechanisms. The companies' activities are monitored and controlled through internal mechanisms, while external mechanisms comprise the control exercised over firms by external stakeholders (Onofrei, Firtescu, & Terinte, 2018).

**Board independence:** Board independence has been an area that regulators have focused on because it is crucial to reduce the influence on the CEO's influence over the board of directors (Abdelbadie & Salama, 2019). Regulations only require a certain amount of board members to be independent. The foundation for the regulations is that if board members are independent of bank executives, they are more likely to protect the shareholders (John et al., 2016). An independent board is crucial because they offer control mechanisms that allow the bank to achieve the firm's objectives (Chahine & Safieddine, 2011).

Agency theory gives the perspective that external and independent board members are more valuable than internal board members because they are not as committed to management and their goals (Kaczmarek, 2017). Internal board members are often apprehensive about raising sensitive issues related to the CEO's performance and actions because they feel beholden to the CEO for their jobs. Independent board members do not have a professional relationship with the CEO; therefore, they do not

hesitate to speak up when something is not right (Al-Matari & Al-Arussi, 2016). Board members that do not own a large percentage of the company stock are more likely to monitor and control operations because they look out for the company (Al-Matari & Al-Arussi, 2016). Both internal and external board members have a legal obligation to make sure the decisions are significant to both the company and the stockholders. However, external board members can face difficulties because they are not directly communicating with management (Ararat et al., 2017). An independent board of directors protects shareholders' interest while still controlling and monitoring the functions to align with management and stakeholders' interests. Having a majority of independent directors allows the bank to reduce agency costs while planning and tracking roles more important (Heenetigala et al., 2011). Independent directors can mitigate the power of management, preventing the misuse of firm resources and improving performance and market value. However, independent directors can align themselves with managers instead of stakeholders because they do not have a stake (Chan & Kogan, 2016).

Stewardship theory is another perspective that argues insider directors have all the information to make better managerial decisions, so the proponents claim superior bank performance is a result of a board constructed of primary insiders (Davydov & Swidler, 2016). Research about firm performance and board independence is mixed (Ahmed, 2016). Several researchers found that board independence improved bank performance, while other researchers negatively impacted board independence and bank performance (Isik & Folkinshteyn, 2017). The contrast in findings can be attributed to several different factors, differences in sample size, performance measures, the study's timeframe, and independent directors' operational definition (Chu, Dai, & Zhang, 2018). Independent directors, as a single factor does not

guarantee an increase in the bank's performance. The success of a bank is a result of many factors working together in correlation. For instance, many banks are successful when the board consists of a balance between inside and outside directors (Sorensen & Miller, 2017).

**Board committees:** Board committees are an internal part of corporate governance, which ensures managers conduct themselves in a way that is in the best interest of both stakeholders and shareholders (Maxfield et al., 2018). The circumstances and requirements within the bank determine the number of board committees needed. The committee's purpose is to help the board of directors perform their duties efficiently and effectively. The board of directors is responsible for creating policies, rules, and procedures that outline the committees' responsibilities, duration, and duties. The board provides a framework for the committee, explaining how the board oversees the committee. Each committee's composition should consist of an appropriate amount of independent and non-executive members that identify any activities or actions that may be a conflict of interest, including the appointment of CEO and integrity of financial and non-financial reports (Louati & Boujelbene, 2015). Having a mixture of independent and management members on the board gives great perspectives when deciding which policies should be created. The four joint committees in regional banks are audit committees, compensation, human resource committees, nominating and corporate governance committees, and risk committees.

**Audit committees:** According to the Federal Reserve Bank, the audit committee should consist of three or more board members (Steckler & Clark, 2019). The members should not have any relationship that may interfere with their independent judgment. Each committee member should be familiar with the necessary finance and



accounting practices (Lei & Chen, 2019). The shareholders are responsible for issuing rules about the committee and also appointing members to the committee. Shareholders also identify the duration and any procedures that a committee needs to follow. One key objective of the audit committee is to assist the board of directors in ensuring that the bank maintains an effective internal control system and risk management (Barnham, 2015). The audit committee should hold regular meetings with external auditors to ensure financial statements are accurate (Al-Matari & Al-Arussi, 2016).

According to the Sarbanes-Oxley Act (SOX) of 2002, both internal and external auditors need to sign off on financial statements to ensure there is no corruption (Financial stability: Overcoming the crisis and improving the efficiency of the banking sector, 2009). An audit committee is consistent with agency theory because it is an additional mechanism that ensures the shareholders are safeguarded (Samaha & Khlif, 2016). The audit committee mechanism increases the monitoring and communication between management, the board of directors, and external auditors (Afsharian & Ahn, 2017). However, Chao, Yu, Hsiung, and Chen (2018) showed a negative correlation between an independent audit committee and members with accounting and financial backgrounds. Companies with financial experts on their audit committee are less likely to restate their 43 financial statements (Ali, 2018). This view conflicts with Lei and Chen's (2019) recommendation for the best practice in corporate governance.

The independence principles state that the audit committee must work independently and perform all of their duties and responsibilities with professional care (Jiraporn & Nimmanunta, 2018). Independent audit committees can challenge executive decisions

because they do not have a personal relationship with the bank's managers (Ajili & Bouri, 2018). Personal relationships can cause problems because there is an appearance of cooperation or conflict of interest. Audit committees monitor the quality and flow of information between shareholders, managers, and board members, which alleviates many agency problems (Chan & Kogan, 2016). However, previous researchers revealed mixed findings of how committee member independence affects financial information and internal controls' reliability. While some researchers found a positive correlation between committee member independence and the reliability of financial data and internal controls, other researchers found that independent audit committees did not affect the reliability of financial data and internal controls (Berger, Bouwman, & Kim, 2017; Ong, 2018). Other researchers found that there was a positive connotation between internal sound controls and an independent audit committee. When audit committee members have financial and accounting backgrounds, it can increase the likelihood that material misstatements are found and corrected promptly. Audit committees that understand the financial statements are also more likely to disclose more information than banks that do not have an independent audit committee (L'Huillier, 2014).

***Compensation and human resources committee:*** The board of directors appointed the compensation and human resources committees to review and approve any goals and objectives related to the Chief Executive Officer (CEO) (Agyei-Mensah, 2017). The committee also oversees the executive's salary and plans about equity-based compensation plans (Ajili & Bouri, 2018). The committee has exclusive rights to terminate any responsibilities, including consultants or experts (Ali, 2018). All the members of this committee will be appointed annually by the board of directors. There should be at least three members, and they must agree to (a) satisfy the

independence and other requirements, and (b) qualify as non-employee directors (Agrawal & Cooper, 2017). The compensation and human resources committee need to be independent members, so they are not to swayed to make decisions.

***Nominating and corporate governance committee:*** The board of directors created the nominating and corporate governance committees to evaluate the board of directors on the board members' skills and characteristics and their corporate governance (Bigus & Hillebrand, 2017). The committee determines the corporate governance of the company and makes the necessary recommendations for any changes. The committee should consist of at least three or more committee members that satisfy the independence rules listed in the New York Stock Exchange (NYSE) (Mazzotta & Veltri, 2014).

***Risk committee:*** The risk committee is a separate committee that evaluates risk management, policies, and procedures (Louati & Boujelbene, 2015). The risk committee member should consist of the executive and non-executive directors and any management member involved with the various areas of risk management (Inya et al., 2018). This committee aims to identify any potential risks and recommend the board to minimize the potential risks. The committee should meet at least three times a year (Isik & Folkinshteyn, 2017).

## **2.5 Financial Reporting**

Financial performance in institutions can present a challenge in research both conceptually and in measurement. According to the Stewardship model, every business needs to make a profit to increase the it's value (Bigus & Hillebrand, 2017). While this is true, not all business have the same definition of value; researchers use two key reports when measuring financial performance: accounting perspectives and

marketing perspectives. Most recent empirical studies use the accounting perspective to measure the company's financial performance; however, this leaves the market-based view underexamined (Bigus & Hillebrand, 2017). Generally accepted accounting principles (GAAP) have a strict set of accounting rules and standards that public institutions must follow. The specific accounting rules and principles are chosen based on the objectives and decisions of management.

Judgements and estimates are unavoidable in financial reporting (e.g., Barth 2006; Ajekwe & Ibiameke 2019). Determining estimates is a challenging process and judgements become more complex and subjective over time (e.g., Mayorga & Sidhu 2012). Accordingly, the inherent precision level in financial statements decreases as well as the risk of material misstatement increases (Ajekwe & Ibiameke 2019). Hence, the provision of comprehensive, relevant, and entity-specific information in this area is valuable for financial statement users. Not only does it help them to understand how estimation uncertainties influence financial statements, it also enables them to assess the reliability of the management's measurement choices, which is crucial for different users' decision-making process (e.g., Barker et al. 2013; Hodgdon & Hughes 2016). Therefore, the International Accounting Standards Board (IASB) established disclosure requirements according to which firms must disclose critical judgements made in the process of applying accounting policies (IAS 1.122) and major sources of estimation uncertainties (IAS 1.125). However, these disclosure requirements are of a principles-based character in that they leave substantial judgement to preparers of financial statements in how to comply with these requirements.

Financial reporting and disclosure are crucial for firms' communication with its investors and other stakeholders to reduce information asymmetries (Healy & Palepu

2001). Disclosures provide investors with the opportunity to understand the application of firms' accounting policies and to examine the relevant information and, eventually, to understand financial statements of a firm (e.g., Healy and Palepu 2001; Lambert, Leuz, & Verrecchia 2007). Thus, firms' disclosures should be of good quality, i.e., include comprehensive relevant, decision-useful information (IASB 2020). To achieve this, financial statement users should be provided with disclosures allowing them to understand how estimates (and related uncertainties) inevitably influence financial statements and to assess the reliability of the management's measurement choices, which is, according to Barker et al. (2013), pivotal for different users decision-making process.

In other words, users should be appropriately informed about judgements and assumptions made in the process of preparing financial reports (Barker et al. 2013). The assumption that quality financial statements can be attained only through the provision of proper, comprehensive judgement and estimation uncertainty disclosures (Ajekwe & Ibiameke 2019) is coherent with statements of the European Financial Reporting Advisory Group (EFRAG) and the Financial Accounting Standards Board (FASB). Both institutions underline the importance of providing relevant, understandable information about judgements and accounting estimates and emphasise respective disclosures to be clearly identified and not just boilerplate<sup>3</sup> (EFRAG 2012; FASB 2012).

Disclosures about judgement and estimation uncertainties are required by IAS 1 Presentation of Financial Statements. The standard, however, provides only little guidance on where and in what format to disclose respective information. It is at the discretion of the reporting entity whether to provide as detailed information as

possible and to follow a more extensive disclosure strategy or to reduce the disclosure level to its minimum but considered as regulatory appropriate. Hence, IAS 1 disclosure requirements are rather principles-based, i.e., they leave substantial judgement to preparers of financial statements by providing less precise criteria, examples, implementation guidance or scope restrictions compared to rules-based standards (Abad et al., 2020).

In the past decade, disclosure regulation and the adoption of a rather principles-based approach to disclosures have been frequently debated international accounting issues. The suggestion to make regulation more principles-based (IASB 2017), has been part of the proposed solutions to the perceived disclosure overload. This includes preparers referring to overly onerous disclosure requirements and stakeholders questioning financial statements' decision-usefulness (Hellman, Carenys, & Gutierrez 2018). This is closely related to the standard setter's observation that firms simply follow a checklist approach and tend to precautionary provide all possible information, to make sure that they fully comply with the requirements (e.g., Hoogervorst, 2013; Tsalavoutas, Tsoligkas, & Evans 2020).

Principlesbased standards, such as IAS 1, are intended to contribute to the solution and should encourage firms to disclose relevant, more entity-specific information, and does not require standardised non-relevant information (Barker et al. 2013). However, academic researchers, professional accounting bodies, public auditing firms as well as enforcers frequently addressed judgement and estimation uncertainty disclosures in the past decade and find both related disclosure quality and quantity that firms provide to be unsatisfying. Aside from the IASB addressing the general issue of too much irrelevant disclosures that do not focus on key issues<sup>4</sup>, also the European

Securities and Markets Authority (ESMA) frequently expressed concerns that firms only provide general discourses about judgements and estimation uncertainties lacking firm specific information or content as well as background (e.g., CESR 2010; ESMA 2011; 2013). Prior empirical disclosure studies by academic researchers (e.g., Runesson 2015; Hodgdon and Hughes 2016) as well as by professional accounting bodies including public auditing firms (e.g., ICAEW 2007; Deloitte & Touch LLP 2008; IAASA 2015; FRC 2017) confirm that, after the IFRS adoption in the EU (2005), some firms neglect separate judgement and estimation uncertainty disclosures within the notes to financial statements, and other firms only provide non-informative, general disclosures.

In general, two types of situations appear which cause discretionary scope in financial reports: (i) judgements made by the management in applying firms' accounting policies, and (ii) judgements due to managements' assumptions about the future. Judgements made by the management when applying accounting policies include determining, for example, the time at which all significant risks and rewards of ownership of financial assets or lease assets are transferred, whether sales of goods are financing arrangements not causing revenue, whether or not an entity has control over another entity and whether terms in contracts of financial assets give rise to cashflows that are solely principal and interest payments (IAS 1.123). Along with judgements, almost all amounts in firms' financial statements, with exceptions, for instance, for cash in firm's domestic currency, reflect certain estimates of the future (IASB 2014). These estimates stem from managers' judgements "[...] of the present and expected future benefits and obligations associated with assets and liabilities" (Mayorga & Sidhu 2012, p. 28). In order to reflect their expectations of the future, managers adjust cash flows by using accruals. Further, there are various financial

statement line items whose amounts consist of combinations of differently measured amounts (Barth 2006). These accounting measurements are often significantly influenced by judgements and/or estimates. Examples of line items based on such accounting measurements include property, plant and equipment, inventory, financial instruments, loans, provisions, accounts receivables, goodwill and other intangible assets. Loans and accounts receivables, for instance, depend on estimated default risks of creditors and debtors as well as depreciations of property, plant and equipment are based on estimated useful lives and residual values (e.g., Barth 2006; Mayorga & Sidhu, 2012).

These estimates of the future need to be based on circumstances which have already occurred by the time the estimates are made (Barth, 2006). Indeed, determining estimates is not always easy and judgements become more complex and subjective, not least due to their reliance on increasing numbers of variables and assumptions (Mayorga & Sidhu, 2012). Accordingly, the inherent precision level in financial statements decreases as well as the risk of material misstatement increases (Ajekwe & Ibiameke, 2019). Thus, clearly identified meaningful disclosures about judgements and estimation uncertainties appear to be valuable for financial statement users because they provide them with relevant information for their decision-making (Hodgdon & Hughes, 2016). Accordingly, quality financial statements can be attained only through the provision of appropriate, comprehensive judgement and estimation uncertainty disclosures (Ajekwe & Ibiameke, 2019). In spite of the challenges in determining accounting estimates as well as the complexity and subjectivity of judgements on the one hand, and the importance of providing appropriate information in financial statements on the other hand, there is only limited regulatory guidance. The standard, for example, contains no information on how to develop accounting estimates, on



where exactly and in what format to disclose information about judgements and estimation uncertainties. However, unlike recognition and measurement options, discretionary scope is not directly intended by standard setters but is attributable to the practical impossibility to truly reflect economic reality by complete standardisation (Barth, Landsman, & Lang 2008).

IAS 1.122 requires reporting firms to disclose critical judgements made by the management in the process of applying the firm's accounting policies in the summary of the significant accounting policies or other notes. These refer to judgements that have a significant effect on the amounts recognised in the financial statements (materiality criterion 6). However, disclosures on judgements involving estimations are not required by IAS 1.122 but by IAS 1.125 (see also IAS 1.132).

IAS 1.125 requires reporting entities to disclose key sources of estimation uncertainty. In detail, firms are required to disclose assumptions that they make about the future, and other major sources of estimation uncertainty that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. For the affected assets and liabilities, the proposed disclosures shall include details of their nature (IAS 1.125 (a)) and their carrying amounts (IAS 1.125 (b)). However, differentiating both requirements (IAS 1.122 and 125) does not mean that one involves the exercise of judgement and the other does not. It is rather that the disclosures do not relate to each other, i.e., the IAS 1.122 disclosure requirement regarding judgements in applying the firm's accounting policies explicitly excludes those that involve estimations, which are required by IAS 1.125 (Ajekwe & Ibiamke 2019). Consistent with the standard setter's principles-based approach to disclosures, the disclosure requirements leave substantial

judgement to preparers of financial statements (Abad et al., 2020). IAS 1 does not specify any particular form or level of detail of the disclosure (IAS 1.BC84). For instance, IAS 1.122 does not specify the term “most significant” and neither requires quantifications nor any explanations on managements’ decision-making criteria. Thus, merely mentioning the issues or financial statement items being subject to management’s judgement may ensure compliance with the IAS 1.122 requirements. However, firms may not be compliant with the disclosure requirements by just referring to the general fact that judgements are made by the management preparing the financial statements.

Likewise, IAS 1.125 explicitly restrains the scope of the disclosures to items with a “significant risk” of causing “material” adjustments to the carrying amounts (IAS 1.BC84). Indeed, it is up to preparer’s judgement whether a significant risk is involved as well as whether the resulting adjustments to the carrying amounts are material. Further, IAS 1.131 allows firms to waive disclosures of the extent of possible effects of an assumption or another source of estimation uncertainty if it is impracticable. Eventually, this exemption provides firms with a wider discretionary scope for interpreting the disclosure principles as per IAS 1.125 and may even enable them to specifically circumvent required disclosures for whatever reasons. Overall, the standard setter implies that the nature and extent of the provided information differ from firm to firm based on firms’ unique circumstances (IAS 1.BC84). For that reason, disclosures should be presented in a manner that assists users of individual financial statements to understand management judgements and the assumptions made about the future (Mayorga & Sidhu 2012). Despite that fact that specific disclosures about judgements and estimation uncertainties are mandatory, they do not necessarily imply that all entities need to make a disclosure due to the discretionary

character. Finally, the lack of detailed guidance for disclosure may result in „variations in type, positioning, content, and quality of disclosure across firms“ (Mayorga & Sidhu, 2012, p. 29).

Accounting measures for financial performance in recent studies include return on assets (ROA), the return of equity (ROE), and net interest margin (NIM) (Douissa & Azrak, 2017). Company's financial information is validated by external auditors and contained in the published financial statements. The financial statements are presumed to be of high quality and free from manipulations (Balakrishnan & Ertan, 2018). However, published financial statements can be biased and open to manipulation (Akhidime, 2019).

## **2.6 Corporate Governance and Financial Reporting Quality**

Studies that link corporate governance attributes of board independence, board role performance and expertise to financial reporting quality are uncommon in emerging economies especially Uganda. Nalukenge *et al.* (2017) found that board role performance and financial expertise of the board are significantly associated with internal controls over financial reporting while board independence was not. In another study, Nalukenge *et al.* (2018) found that corporate governance as measured by board financial expertise, board independence and board role performance is significantly associated with compliance with International Financial Reporting Standards. In their study, Mansor *et al.* (2013), confer to the fact that without corporate governance, the overall management including financial management, decision making and indeed reporting may not be realistically attained. Corporate governance has a strong influence on the basic and formal performance of any

business, and in this discussion, the current study pays attention to the ways in which corporate governance relates with financial performance.

The study of Changezi and Saeed (2014) document that corporate governance is a key foundation of organizations to be more productive, governed and controlled, and as such different stakeholders contribute immensely to the function and process of financial reporting. In many companies, financial reports are based on the decisions of corporate governance actors although they go further to authenticate recorded information as provided by the financial reports. To this view, it may be ideal to note that corporate governance and financial reporting are related. However, the above authors did not specifically pay attention to the manufacturing sector, and hence their deductions may not entirely reflect the position in this sector. Prior research has consistently revealed significant associations between various corporate governance mechanisms and poor financial reporting quality, such as earnings management/manipulation and financial statement fraud (Beasley *et al.*, 2001). Bananuka *etal.* (2019a, b, c) document that board role performance is significantly associated with Internet reporting in Uganda. Further, Nalukenge (2020) found that board role performance is significantly associated with international financial reporting standards disclosure requirements in Uganda. In another study of adoption of international financial reporting standards, Bananuka *et al.* (2019a, b, c) found that board of directors' effectiveness where one of the measures was financial expertise is significantly associated with IFRS adoption in Uganda's MFIs.

## **2.7 Internal audit Quality and Financial Reporting Quality**

Roussy and Brivot (2016) undertook a study on how internal auditors, Institute of Internal Auditors (IIA), audit committee members and external auditors understand the notion of internal audit quality. From their study, external auditors mainly view internal audit quality from two angles; internal auditor competence and Internal Audit Function's level of independence while the IIA understands quality as conformance to norms and best practices promoted by the Institute. The internal auditors and audit committee members frame internal audit quality based on how useful management perceives the internal audit reports. All the above dimensions (competence, independence, compliance with professional standards) are included in this study as measures of internal audit quality in our study.

Further, Bananuka *et al.* (2018) understands a functioning internal audit as that which evaluates the effectiveness of internal controls, participates in risk management and ensures compliance with the laws and regulations. This means that, once the internal audit gains the capacity to review the effectiveness of internal controls and participates in risk management, then it is competent. If internal audit staff are not competent, independent and do not comply with professional standards, then they cannot fulfill their roles and thus non-functioning.

Studies that link internal audit quality to financial reporting quality of financial institutions are scarce in developing countries especially African countries. The available literature links internal audit quality to financial reporting quality using evidence from the developed world. For example, Prawitt *et al.* (2006) study utilizes 218 publicly listed US firms from the years 2000–2005 and finds that the IAF quality constrains earnings management. According to Johl *et al.* (2013), internal audit

quality is significantly associated with abnormal accruals if the internal audit function outsources its activities. However, Johl *et al.* (2013) notes that, if internal audit does not outsource its activities and has no political connections, there is a negative relationship between internal audit quality and abnormal accruals. Johl *et al.* (2013) further note that internal audit organizational independence, financial focus audit activities and investment are associated with lower income increasing abnormal accruals. Further, Bananuka *et al.* (2018) found that internal audit function is significantly associated with accountability of Ugandan statutory corporations. These findings mean that a well undertaken internal audit is the baseline for financial reporting, although the extent to which it is being undertaken in financial institutions in Uganda has not been extensively been examined. The authors argue that a well undertaken internal audit helps an organization accomplish its financial reporting objectives by bringing a systematic detail of what is done in the firm and how it should be. With internal audit acting as a watchdog for the firm's financial operations improves the financial reporting practices.

## **2.8 Auditing and Corporate Governance**

According to Mundy, (2018) an effective internal audit function can play a significant role within the corporate governance framework of a company. Over the last decade internal audit has developed and grown in importance. Internal audit is an independent and objective appraisal function. The remit of internal audit is both company and country specific. Its responsibilities and the reporting lines vary between countries with a two-tier system. Depending on the corporate governance system the internal audit function supports senior management, the (management) and/or the (supervisory) board. Whilst acknowledging the importance of internal financial control in the current environment where there is a need to improve

confidence in financial reporting, FEE recommends that the remit of internal audit functions should continue to have a significant focus on assessing the wider aspects of internal control which are linked to the management of risks facing a company. Where the internal audit function is not under the direct control of management (which is the case in many Member States), the internal audit function should have an independent professional reporting line directly to the audit committee with the Head of Internal Audit normally invited on a regular basis to attend its meetings. This reporting line assists the internal audit function in maintaining its objectivity by being able to communicate the results of its work to the audit committee without interference from management. The audit committee should monitor and review the activities and effectiveness of the internal audit function and should review and approve the internal audit function's remit. The audit committee will need to decide if, and how, internal audit and external audit should work together, bearing in mind the different roles of each of the two audit functions.

There is significant relationship between internal audit quality and financial reporting quality (Kaawaase, Bananuka, Kwizina, and Nabaweesi, 2020). Roussy and Brivot (2016) opine that internal auditors should keep a close relationship with management. Roussy and Brivot (2016) argument on the close relationship of internal audit with management is based on the fact that, internal auditors should constantly advise management on how to improve operations. Such close relationships may at times impair the independence of internal audit. Contrary, the finding that internal audit independence is not significantly associated with financial reporting quality contradict findings by Johl *et al.* (2013) that internal audit independence is significantly associated with lower income increasing abnormal accruals. In the Ugandan setting, internal audit report to the audit committee functionally and to

management administratively. However, the independence of internal auditors in Uganda's financial institution does not significantly contribute toward the improvement of financial reporting practices. All in all, the finding that internal audit quality and financial reporting quality is in agreement with the works of Johl *et al.* (2013) who found that internal audit quality is significantly associated with financial reporting quality (abnormal accruals) when the internal audit function activities are not outsourced. This study finding on the association between internal audit quality and financial reporting quality is in line with the findings of Bananuka *et al.* (2018) that internal audit function is significantly associated with accountability of statutory corporations.

The exact mechanism through which financial reporting quality can be improved in Uganda is such that: First, corporate governance mechanisms of board expertise and board role performance need to be given particular attention. This may be achieved when an institution attracts those individuals with knowledge in the financial statements analysis and who are already chairing board committees elsewhere. Also, financial reporting quality may be improved if the board members can monitor performance of management at all intervals by critically analyzing their performance reports. The board must always ratify major decisions, organize and attend meetings, advise management on the way forward for the pertinent issues and where necessary delegate authority to management. Secondly, the internal audit quality of any financial institution should have performed accounting work elsewhere (experience), have accounting professional qualifications and have attended continuous development programs. Lastly, management need to ensure that, in the preparation of financial statements, focus is put on ensuring that the information disclosed in such



financial statements is relevant, faithfully represented, timely, comparable and verifiable.

Nalukenge et al. (2017) found that board expertise is significantly associated with internal controls over financial reporting and board independence is not significantly associated with financial reporting quality. Nalukenge *et al.* (2017) further found that board independence is not significantly associated with internal controls over financial reporting. Nalukenge (2020) and Bananuka *et al.* (2019a, b, c) found that board role performance is significantly associated with internal controls over financial reporting, compliance with IFRS disclosure requirements and Internet financial reporting respectively.



## CHAPTER THREE

### METHODOLOGY

#### 3.0 Introduction

The chapter presents the various techniques used in collecting and analysing data in a study. These include research paradigm, research approach, research design, population, sample and sampling techniques, research instruments, validity of research instrument, reliability of research instrument, trustworthiness of the study, data collection procedures, data collection procedures and ethical considerations.

#### 3.1 Research Paradigm

A research paradigm describes the assumptions and beliefs with regards to how the world is perceived, and becomes the theoretical framework that guides the conduct of the researcher (DeVellis, 2016). Important academic research of this nature deserves to lay claim to theoretical frameworks and philosophical perspectives regarding knowledge on the assumption on how we will study what we intend to learn as paradigm embedded in the research methodology (Goldkuhl, 2012).

The study adopted positivism research paradigm to assess the relevance of financial reporting and auditing to corporate governance in University of Education, Winneba. This study leveraged on positivism, the researcher focused on data collection and interpretation based on objectivity. The results are always observable and quantifiable. As a general rule, studies that employ a positivist approach adopt a deductive approach. A core assumption is that if a study is carried out with minimal interrelationship between the researcher and the researched the result will be purely grounded in objectivity (Bhattacharjee, 2012). Positivism maintains that for knowledge to be termed authentic, it must be scientific and must emerge strictly from

positive affirmation of theories through the gathering of observable, empirical and measurable data which is subjected to specific principles of reasoning. The positivist paradigm is informed by the philosophical thought that there is an existing reality. The truth is out there which has to be uncovered by the use of objective methods. In other words the researcher needed to be as detached from the research as possible and use methods that maximize objectivity. This negates the interpretive paradigm that says that reality is subjective and the researcher has to be actively involved in the knowledge construction (Cropley, 2019). This study intends to uncover an existing reality and explain it in a manner that will prove or disprove the issue under study using statistical methods to generalize results.

### **3.2 Research Design**

According to Saunders, Lewis and Thornhill (2012), a research design is a plan or guide for data collection and interpretation, with sets of rules that enable the researcher to conceptualize and observe the problem under study. Research designs are the plans and procedures that cover the decision from broad assumption to detailed method of data collection (Creswell & Creswell, 2017). The descriptive research design was chosen for the purpose of investigating the relevance of financial reporting and auditing to corporate governance using University of Education, Winneba. Descriptive research design is a scientific method which involves observing and describing the behaviour of a subject without influencing it in anyway (McCombes, 2019), 2012). McCombes (2019) further added that, descriptive research represents a scientific method in which variables are controlled or manipulated. Therefore, the study participants were observed naturally without any controlling.

### 3.3 Research Approach

There are three different approaches when conducting studies: qualitative, quantitative, and mixed methods. Consideration was taken when reviewing the three different approaches to determine the appropriate approach for this study. The choice of research methods needed to align with the research questions. Therefore, the methodology can be qualitative, quantitative, or a combination of both approaches (Tashakkori, Johnson & Teddlie, 2021). The qualitative approach is suitable when previous studies have not been conducted on specific social problems or if the study variables are not noticeably identified. The quantitative approach is best because it helps test theories by examining the correlation between the independent and dependent variables.

Furthermore, the quantitative approach depends on collecting and analysing numerical, categorical, or ordinal data (Pandey & Pandey, 2015). The mixed-methods approach is appropriate when either the qualitative or quantitative method is not appropriate to address the specific business problem because it allows the researcher to use a 51 combination of both methods (Bonna, 2011). The qualitative approach was not appropriate for this study because my study aimed to examine the relationship between corporate governance, financial reporting, and profitability by examining the variables' statistical relationship. The quantitative method was best suited as a means to examine my primary question and secondary data. The crucial representations of quantitative research lie in the numbers, objectivity, and generalizability of the data

The quantitative approach of research involves the use of objective measurements to collect numeric data (Muijs, 2014). In quantitative research, data is usually gathered using more structured research instruments. Results are based on larger sample sizes

that are representative of the population. Therefore, this aspect of the research involved the use of questionnaire and Likert scale items to collect data from a larger sample with the aim of investigating causal relationship or to produce numerical analysis (Saunders, Lewis & Thornhill., 2012). This kind of data collected through questionnaires produces results that allow for generalisation and prediction of future results. Data was obtained through questionnaire.

### **3.4 Population of the Study**

The population includes all elements that meet certain criteria for inclusion in a study (Hammond & Wellington, 2012). Kusi (2012) defines population as a group of individuals or people with the same characteristics and in whom the researcher is interested. According to Pandey and Pandey, (2015), the target population defines those units to which the findings of a study are meant to apply. In addition, Pandey and Pandey (2015), posits that the target population of a study is the entire set of subjects or population for which the study is to be used to make inferences. The target population for this study consists of finance officers, heads of department and senior administrators of the university. This population was chosen because it was in the best position to provide in-depth information concerning the topic under study.

### **3.5 Sample Size and Sampling Techniques**

Ravitch, and Riggan, (2017, p. 87) defined a sample as “a small subset of a larger population whose selection is based on the knowledge of the elements of a population and the research purpose” (p.183). Creswell and Creswell (2018) refer to sample as the population that is selected for the investigation. The study involved 90 respondents. The respondents were selected through census sampling techniques.

### **3.6 Research Instrument**

Research instruments are tools used to collect data to answer the research questions (Zohrabi, 2013). The study used questionnaire as the main instrument for gathering data from participants. Due to the quantitative nature of the study, the questionnaire was structured made up of close ended questions. This was appropriate to ensure objectivity, reliability, eliminate researcher bias and ensure anonymity of respondents. Moreso, closed - ended items offered to give the advantage of collecting quantitative information and collect a large amount of information in a reasonably quick space of time.

### **3.7 Validity of the Instrument**

Validity is the extent to which a test measures what is intended to measure (Stephanie, 2017). According to Taherdoost (2016), the instrument's face validity is the subjective assessment of relevance and the presentation of its items. Face validity was ensured by letting colleagues review the instruments and give feedback for modification. For content validity, the researcher's supervisor reviewed the instrument in order to ensure a full representation of all concepts under study.

Construct validity was also ensured by employing accepted definitions and constructions of concepts and terms; operationalizing the research and its measures. Internal validity check was done through ensuring agreements between different parts of the data, matching patterns of results, ensuring that findings and interpretations derive from the data are transparent and that causal explanations are supported by the evidence (alone), and that rival explanations and inferences have been weighed and found to be less acceptable than the explanation of inference made, again based on evidence.

### **3.8 Pilot testing of the Instrument**

Fraenkel and Wallen (2012) defined pilot testing as a small scale study conducted before the actual one in order to reveal the defect in the research plan. In determining the ability of participants in understanding and responding to questions in the instrument as intended, a pilot test of the questions was done. Pilot study was significant as it helped to detect any problem with the questionnaire design leading to ambiguity of words, misinterpretation of questions, inability to answer a question and effect necessary corrections on the questionnaire before final administration.

### **3.9 Instrument Reliability**

Reliability is the extent to which a test or measurement result is consistent (Ekbatan, Lecner & Schweiker, 2019). The researcher used test-retest method to obtain reliability of the measuring instrument. This technique involved administering the same instruments twice in a span of two weeks to the same group of subjects. Scores from both testing periods were then correlated. The primary aim was to measure the stability or consistency of the instrument over time. Cronbach Alpha analyses were used to calculate the reliability of the instrument. The data that was generated from this pilot test was entered into the Statistical Package for Social Sciences (SPSS version 25) to compute the reliability co-efficient. The Cronbach Alpha reliability co-efficient was 0.70 (have high degrees of reliability or meets internal consistency).

### **3.10 Data Collection Procedures**

An introductory letter was obtained from the University of Education, Winneba to seek permission from the respondents; and accordingly inform participants for their cooperation and assistance during the data collection. The data was personally collected by the researcher. In the process, the researcher explained verbally the

purpose of the study and the demand of each section of the questionnaire. Participants were given ample time to respond to the questions. The researcher used two week to collect the data. The researcher met the participants depending on their schedules.

### **3.11 Data Analysis Procedures**

The analysis of the data commenced with editing and inspection of the pieces of data in order to identify simple mistakes, items that were wrongly responded to and any blank space left unfilled by the respondents. The statistical package for social sciences (SPSS) was used to process all the responses from the questionnaire. Based on the data gathered from the field, results were analyzed using descriptive statistics involving frequencies, percentages, mean and standard deviation and findings of the study were discussed and reported.

### **3.12 Ethical considerations**

Ethical issues arise from the kinds of problems that social scientists investigate and the methods used to obtain valid and reliable data. Ethical considerations were pertinent to this study because of the nature of the problem, the method of data collection and the kind of persons serving as research participants. While carrying out this study, ethical procedures were followed suggested by Bryman (2012).

Bryman (2012) advised that, researchers should ensure that participants are protected from any physical or psychological harm that may arise from research procedures. In line with international best practices in education, the researcher revealed the intentions of the study to the participants and sought informed consent for their participation. The researcher verbally assured the participants of anonymity of their identities and confidentiality of the data that would be obtained from them. In addition, with regard to the ethical issue of confidentiality, the researcher stored all



information from the study safely. Hard copies were locked in a cabinet and soft copies stored in files protected with a password, which was only accessible to the researcher.



## CHAPTER FOUR

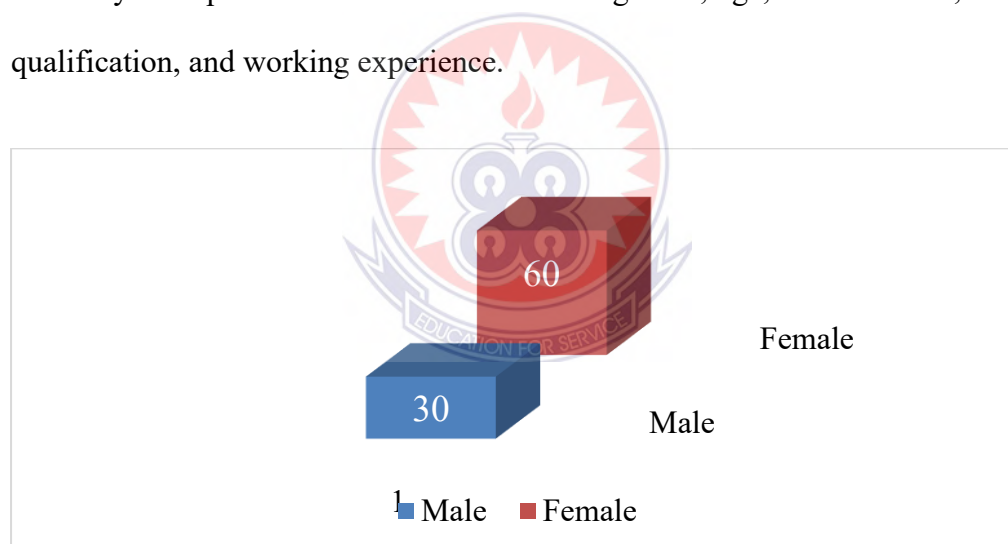
### DATA PRESENTATION AND ANALYSIS

#### 4.0 Introduction

This chapter presents the data and analyses of the research findings. The findings were presented in two main sections. Section ‘A’ focused on the demographic data of the participants. Section ‘B’ concentrated on the analyses and discussion of the data collected from the respondents. Data collected is analyzed using descriptive statistics.

#### 4.1 Demographic Characteristics of Participants

This section discusses the demographic characteristics of the respondents involved in the study. The parameters discussed include: gender, age, marital status, educational qualification, and working experience.

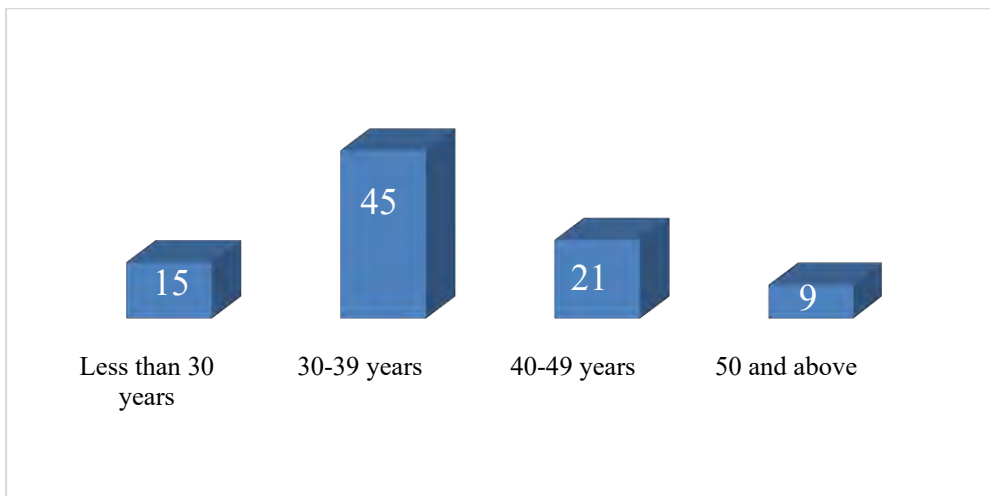


**Figure 4.1: Gender of Respondents**

Source: Field Work Data (2023)

Figure 4.1 shows the demographic data for gender of respondents for the study. From the data, thirty (30) representing 33.3% are males whiles sixty (60) representing 66.7 % are females. This suggests that majority of the respondents in the study are females. Hence, the findings generated by the study is likely to reflect more on their opinions. Parallel to literature is Arbuckle and Williams (2003) assertion that females often

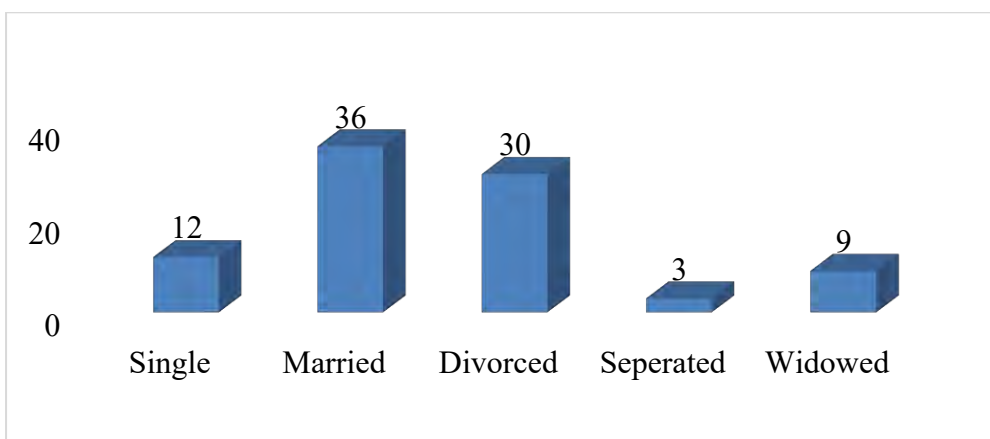
dominate administrative roles and perform better than males when it comes to fair release of funds in seeking organisational performance.



**Figure 4.2: Age Distribution of Respondents**

Source: Field work Data (2023)

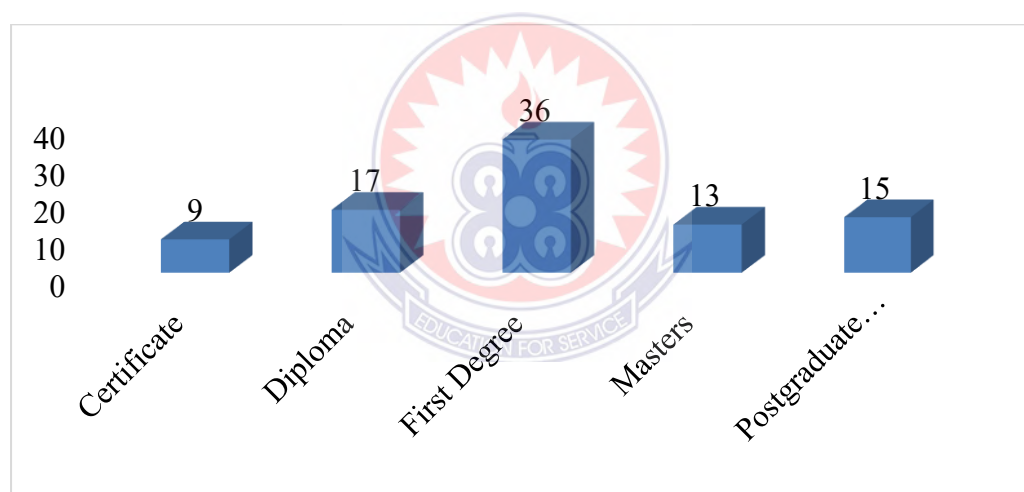
Figure 4.2 shows the ages of respondents for the study. Fifteen (16.7%) are less than 30 years (young age). Forty-five (45) employees representing 50% fell within 30 to 39 years; (middle age), twenty (21) representing 23.3% are between the ages 40 and 49 years (middle age) while nine (9) representing 10% were also above 50 years (old age). From the data most of the respondents fall within (30 to 39 years).



**Figure 4.3: Marital Status of Respondents**

Source: Field Work Data (2023)

From the data in Figure 4.3, it can be deduced that, twelve (12) of the respondents representing 13.3% are single, thirty-six (36) representing 40% are married whiles thirty (30) representing 33.3% are divorced. Three (3) of representing 3.3 % are separated and the remaining nine (9) representing 10.0% are widowed. This indicates that most of them are either married or divorced. On the variable employees' marital status, Kong (2005) discovered that single and married employees had higher scores than those separated and divorced in the dimensions of job engagement, especially in the dimension of vigour and dedication. Zhang and Fang (1991) concur that, psychological problems such as separation and divorced affect employees' dedication to duty.

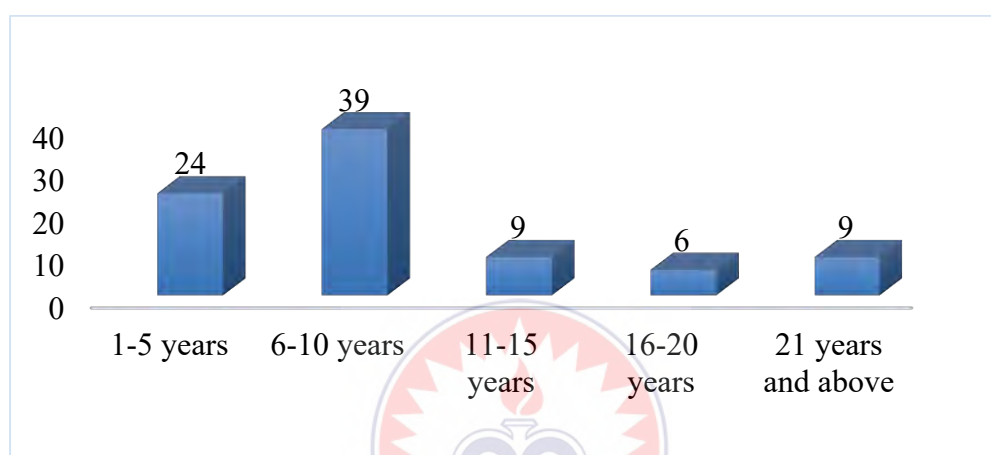


**Figure 4.4: Educational Qualification of Respondents**

Source: Field Work Data (2023)

Figure 4.4 presents academic status of the study respondents. It was observed that nine (9) of the respondents representing 10% hold Certificate, seventeen (17) representing 18.9% hold Diploma certificate, thirty-six (36) representing 40% had obtained Bachelor Degree, thirteen (13) representing 14.4% have Masters Degree certificate, and fifteen (15) representing 16.7% hold either Postgraduate Diploma and or HND. The data obviously indicates that greater percentage of respondents had

obtained the prerequisite working qualification. This makes them suitable for the study because they will assist the researcher to obtain in-depth information concerning the problem under investigation. Employees' qualification is positively correlated with the realisation of institutional aims and goals. Abe and Adu (2013) report that employees' qualification contributes to the improvement of organizational outcomes and performance.



**Figure 4.5: Working Experience of Respondents**

Source: Field Work Data (2023)

In finding out the working experience of the respondents, it was realized from the data in Figure Table 4.5 that, twenty-four (24) of the respondents which representing 26.7% have been in the profession from 1 to 5 years. 39 (43.3%) have been in the profession from 6 to 10 years. Nine (9) representing 10% have had 11-15 years of experience, six (6) representing 6.7% have had 16-20 years of experience, whilst nine (9) representing 10.0% have had 21 years and above working experience. From the data, it can be deduced that majority of the respondents had obtained at least six years of working experience. As a result, they can unravel the dynamics concerning the problem under investigation. Akinsolu (2005) advocates that experienced workers

need to be retained in organizations if higher productivity is to be obtained because much is achieved more from these employees.

## 4.2 Analysis of Research Questions

### Research Question 1: What is the role of financial reporting in enhancing corporate governance at University of Education, Winneba?

This research question was posed to find out the role of financial reporting in enhancing corporate governance at University of Education, Winneba. The result is indicated in Table 4.1.

**Table 4.1: The role of financial reporting in enhancing corporate governance at University of Education**

Statements	SA		A		U		D		SD	
	F	%	F	%	F	%	F	%	F	%
UEW adopts financial reporting standards that result in reduced operational and administrative costs	34	37.8	48	53.3	1	1.1	3	3.3	4	4.4
UEW adopts financial reporting standards that promote transparency and accountability	40	44.4	36	40.0	2	2.2	10	11.1	2	2.2
UEW adopts financial reporting standards that ensures against contractors and service companies that provide shoddy workmanship	34	37.8	45	50.0	2	2.2	5	5.6	4	4.4
UEW adopts financial reporting standards that ensures that materials products and services are procured in time	29	32.2	51	56.7	0	0.0	9	10.0	1	1.1
UEW adopts financial reporting standards that eventually result in budgetary saving and increase profitability.	33	36.7	37	41.1	1	1.1	15	16.7	4	4.4
UEW adopts financial reporting standards that promote trust and commitment between UEW and suppliers	38	42.2	43	47.8	0	0.0	2	2.2	7	7.8
UEW adopts financial reporting standards that ensures that materials, products and services continue to be available	30	33.3	55	66.1	0	0.0	2	2.2	3	3.3

Key: A=Agree; SA= Strongly Agree; U= Undecided; SD = Strongly Disagree; D=Disagree  
Source: Field Work Data (2023)

It can be deduced from the data in Table 4.1 that majority of the respondents 82(91.3%) either agreed or strongly agreed that UEW adopts financial reporting standards that result in reduced operational and administrative costs. However, 7(7.7%) either disagreed or strongly disagreed to the statement whilst 1(1.1%) was indecisive. This implies that when financial reporting standards are effective, it helps in the reduction of operational and administrative costs within organizations.

In addition, majority of the respondents 76(84.4%) were of the opinion that UEW adopts financial reporting standards that promote transparency and accountability, 12(13.3%) thought otherwise, whilst 2(2.2%) remained indecisive. It suggests that good financial reporting standards promote transparency and accountability within organisations.

Furthermore, majority of the respondents 79(87.8%) either agreed or strongly agreed that UEW adopts financial reporting standards that help protect companies against contractors and service companies that provide shoddy workmanship, 9(10.0%) of them thought differently, whereas 2(2.2%) were also indecisive. This suggests that effective financial reporting standards by finance officers heads of departments and administrators safeguards companies against servicers and contractors that provide inferior workmanship. Moreover, it was also discovered that majority of the respondents 80(88.9%) either agreed or strongly agreed that UEW adopts financial reporting standards that ensure that materials, products, and services are procured in time, 10(11.1%) of them either disagreed or strongly disagreed to the statement, whilst none was indecisive. It verifies that a benefit accompanied with effective financial reporting standards is to ensure the procurement of goods, services, and materials without time lapses.

To add, majority of the respondents 70(77.8%) disclosed that UEW adopts financial reporting standards that eventually result in budgetary saving and increase profitability in organisations. However, 19(21.1%) either disagreed or strongly disagreed to the statement whilst 1(1.1%) was indecisive. This implies that effective financial reporting standards play a tremendous role in upsurging budgetary saving; hence have the power to increase profitability in organisations.

The Table establishes again that majority of the respondents 81(90.0%) either agreed or strongly agreed that effective financial reporting standards will promote trust and commitment between UEW and suppliers, 9(10.0%) of them thought differently whereas none was indecisive. It means that effective financial reporting standards promote trust and commitment between any organization and its suppliers.

Finally, majority of the respondents 85(94.4%) indicated that UEW adopts financial reporting standards that ensure that materials products and services continue to be available, 5 them representing 5.5% thought otherwise, whereas none was indecisive. It suggests that another institutional gain from proper financial reporting standards is that, it ensures continual availability of materials, products, and services.

These findings run parallel with previous literature, Nalukenge *et al.* (2018) found that corporate governance as measured by board financial expertise, board independence and board role performance is significantly associated with compliance with International Financial Reporting Standards. In their study, Mansor *et al.* (2013), confer to the fact that without corporate governance, the overall management including financial management, decision making and indeed reporting may not be realistically attained. Corporate governance has a strong influence on the basic and formal performance of any business, and in this discussion, the current



study pays attention to the ways in which corporate governance relates with financial performance.

The findings are in consonance with Loppacher et al. (2011) who report that proper financial reporting standards result in reduced operational and administrative costs and processing times for both governments and their vendor community, increased spending control and buying power and improved vendor relations. Pal et al. (2017) comment that a firm by entering into a long-term relationship with a vendor and locking down prices over an extended period for key material could help the organisation reduce cost significantly. Good financial reporting standards can help a company get the value for its money because the procurement process involves comprehensive research about cost and value (Lings et al., 2016).

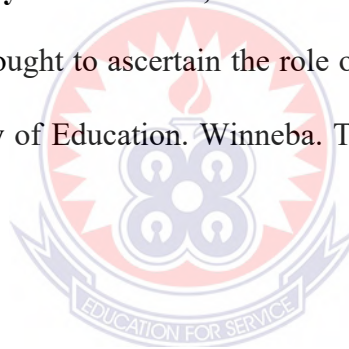
A strong finance and procurement department in a company may also be able to negotiate better prices and value with suppliers and independent contractors because these companies will be eager for continuation of businesses (Kakwezi & Nyeko, 2019). Additionally, ensuring lower costs while providing better value are only part of a finance and procurement function's research responsibilities (Kakwezi & Nyeko, 2019). Good finance and procurement departments ensure that the materials and services being used are in line with all local, state, or federal regulations and that, products and services continue to be available devoid of environmental hazards. Similarly, finance and procurement departments also ensure that the quality level of the goods or works being procured is up to the standards of the company. Good financial reporting standards and procurement services help protect companies against contractors and service companies that provide shoddy workmanship and against parts

and equipment that are prone to frequent breaking or shortened lifespans (Kakwezi & Nyeko, 2019).

Petcavage and Pinkerton (2010) establish that, proper financial reporting standards and procurement practices lead to improvement in quality and reduction in cost. It improves proper allocation of firm resources, high quality and timely procurement. This eventually results in budgetary saving and increase profitability in organisations. Thus, organisational performance is measured by customer satisfaction, quality of products, and quality of service delivery.

**Research Question 2: What is the role of auditing in enhancing corporate governance at University of Education, Winneba?**

This research question sought to ascertain the role of auditing in enhancing corporate governance at University of Education, Winneba. The outcome is presented in Table 4.2.



**Table 4.2: The role of auditing in enhancing corporate governance at University of Education, Winneba**

Statements	SA		A		U		D		SD	
	F	%	F	%	F	%	F	%	F	%
Auditing in UEW is independent and complies with professional standards	44	48.9	33	36.7	1	1.1	3	3.3	9	10.0
Auditing in UEW helps evaluate the effectiveness of internal controls	50	55.6	30	33.3	0	0.0	9	10.0	1	1.1
Auditing in UEW acts as a watchdog for financial operations and financial reporting practices.	45	50.0	36	40.0	0	0.0	0	0.0	9	10.0
Auditing in UEW serves as a yardstick to ensure well-identified, estimated, and realistic budgets	30	33.3	45	50.0	3	3.3	9	10.0	3	3.3
Effective internal audit function can play a significant role within the corporate governance framework of UEW	33	36.7	27	30.0	1	1.1	15	16.7	14	15.6
Internal auditors keep a close relationship with management and advise management on how to improve operations	38	42.2	45	50.0	0	0	3	3.3	5	5.6

Key: SA= Strongly Agree; A=Agree; U= Undecided; SD = Strongly Disagree; D=Disagree  
Source: Field Work Data (2023)

Data in Table 4.2 verifies that majority of the respondents 77(85.6%) either agreed or strongly agreed that auditing in UEW is independent and complies with professional standards. However, 12(13.3%) either disagreed or strongly disagreed to the statement while 1(1.1%) was indecisive. The outcome suggests that auditing in UEW is independent and complies with professional standards.

In addition, majority of the respondents 80(88.9%) indicated that auditing in UEW evaluates the effectiveness of internal controls, 10 them representing 11.1% thought otherwise, whereas none was indecisive. The outcome suggests auditing in UEW helps evaluate the effectiveness of internal controls. Furthermore, majority of the respondents 81(90.0%) either agreed or strongly agreed that auditing in UEW acts as a watchdog for financial operations and financial reporting practices, 9(10.0%) of them thought differently, whereas none was indecisive. The results indicate that in

UEW auditing acts as a watchdog for financial operations and financial reporting practices.

Moreover, it was also established that majority of the respondents 75(83.3%) either agreed or strongly agreed that auditing in UEW serves as a yardstick to ensure well-identified, estimated, and realistic budgets, 12(13.3%) of them either disagreed or strongly disagreed to the statement, whilst 3(3.3%) were indecisive. The outcome points to the fact that auditing in UEW serves as a yardstick to ensure well-identified, estimated, and realistic budgets

To add, majority of the respondents 60(67.7%) disclosed that effective internal audit function can play a significant role within the corporate governance framework of UEW. However, 29(32.3%) either disagreed or strongly disagreed to the statement whilst 1(1.1%) was indecisive. The results clearly suggest that effective internal audit function can play a significant role within the corporate governance framework of UEW. The finding is in line with Mundy (2018) who asserted that, an effective internal audit function can play a significant role within the corporate governance framework of a company. According to the author over the last decade internal audit has developed and grown in importance. Internal audit is an independent and objective appraisal function. The remit of internal audit is both company and country specific. Its responsibilities and the reporting lines vary between countries with a two-tier system. Depending on the corporate governance system the internal audit function supports senior management, the (management) and/or the (supervisory) board. Whilst acknowledging the importance of internal financial control in the current environment where there is a need to improve confidence in financial reporting,

Finally, the Table further reveals that majority of the respondents 83(92.2%) either agreed or strongly agreed that internal auditors keep a close relationship with management and advise management on how to improve operations. However, 8(8.9%) of them thought differently whereas none was indecisive. It means that internal auditors keep a close relationship with management and advise management on how to improve operations.

The finding gives credence to Roussy and Brivot (2016) who opine that internal auditors should keep a close relationship with management. Roussy and Brivot (2016) argument on the close relationship of internal audit with management is based on the fact that, internal auditors should constantly advise management on how to improve operations. Such close relationships may at times impair the independence of internal audit. Contrary, the finding that internal audit independence is not significantly associated with financial reporting quality contradict findings by Johl *et al.* (2013) that internal audit independence is significantly associated with lower income increasing abnormal accruals.

**Research Question 3: What is the relationship between financial reporting, auditing and corporate governance?**

The last research question was intended to establish the relationship between financial reporting, auditing and corporate governance. The results are presented in Table 4.3.

**Table 4.3: Relationship between financial reporting, auditing and corporate governance**

Statements	SA		A		U		D		SD	
	F	%	F	%	F	%	F	%	F	%
Effective financial reporting, directly affects quality of corporate governance and organisational performance	45	50.0	36	40.0	1	1.1	5	5.6	3	3.3
Corporate governance allows companies to decrease the operational risk of the company by using adequate internal and external controls	40	44.4	45	50.0	2	2.2	2	2.2	1	1.1
Proper internal audit directly affects quality of corporate governance and organisational performance	48	53.3	35	38.9	0	0.0	5	5.6	2	2.2
Effective financial reporting, auditing and corporate governance helps risk management	29	32.2	50	55.6	2	2.2	9	10.0	0	0.0
Internal audit helps UEW accomplish its financial reporting objectives by bringing a systematic detail of what is done in the UEW	33	36.7	52	57.8	0	0.0	5	5.6	0	0.0

Key: SA= Strongly Agree; A=Agree; U= Undecided; SD = Strongly Disagree; D=Disagree  
Source: Field Work Data (2023)

It can be deduced from the data in Table 4.3 that majority of the respondents 81(90.0%) either agreed or strongly agreed that effective financial reporting, directly affects quality of corporate governance and organisational performance. However, 8(8.9%) either disagreed or strongly disagreed to the statement whilst 1(1.1%) was indecisive. This implies that effective procurement has a direct bearing on the quality of organisational performance.

In addition, majority of the respondents 85(94.4%) indicated that corporate governance allows companies to decrease the operational risk of the company by using adequate internal and external controls, 3 the respondents representing 3.3% thought otherwise, whereas 2(2.2%) of them were undecided. It suggests that corporate governance allows companies to decrease the operational risk of the

company by using adequate internal and external controls, it plays a tremendous role in enhancing their operational effectiveness.

Furthermore, majority of the respondents 83(92.1%) either agreed or strongly agreed that proper internal audit directly affects quality of corporate governance and organisational performance, 7(7.8%) of them either agreed or strongly agreed to the statement, whereas none was indecisive. This suggests that proper internal audit directly affects quality of corporate governance and organisational performance.

Moreover, it was also established that majority of the respondents 79(87.8%) either agreed or strongly agreed that effective financial reporting, auditing and corporate governance helps risk management, 9(10.0%) of them either disagreed or strongly disagreed to the statement, whilst 2(2.2%) were indecisive. It verifies that effective financial reporting, auditing and corporate governance helps risk management.

Finally, majority of the respondents 85(94.4%) either agreed or strongly agreed that internal audit helps UEW accomplish its financial reporting objectives by bringing a systematic detail of what is done in the UEW, 5(5.6%) of them thought otherwise whilst none remained indecisive. It validates that internal audit helps UEW accomplish its financial reporting objectives by bringing a systematic detail of what is done in the UEW.

The findings agree previous literature. All in all, the finding that internal audit quality and financial reporting quality is in agreement with the works of Johl *et al.* (2013) who found that internal audit quality is significantly associated with financial reporting quality (abnormal accruals) when the internal audit function activities are not outsourced. This study finding on the association between internal audit quality and financial reporting quality is in line with the findings of Bananuka *et*

*al.* (2018) that internal audit function is significantly associated with accountability of statutory corporations.

Also, financial reporting quality may be improved if the board members can monitor performance of management at all intervals by critically analyzing their performance reports. The board must always ratify major decisions, organize and attend meetings, advise management on the way forward for the pertinent issues and where necessary delegate authority to management. Secondly, the internal audit quality of any financial institution should have performed accounting work elsewhere (experience), have accounting professional qualifications and have attended continuous development programs. Lastly, management need to ensure that, in the preparation of financial statements, focus is put on ensuring that the information disclosed in such financial statements is relevant, faithfully represented, timely, comparable and verifiable.

Nalukenge et al. (2017) found that board expertise is significantly associated with internal controls over financial reporting and board independence is not significantly associated with financial reporting quality. Nalukenge *et al.* (2017) further found that board independence is not significantly associated with internal controls over financial reporting. Nalukenge (2020) and Bananuka *et al.* (2019a, b, c) found that board role performance is significantly associated with internal controls over financial reporting, compliance with IFRS disclosure requirements and Internet financial reporting respectively.



## CHAPTER FIVE

### SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

#### 5.0 Introduction

This chapter presents the summary of the study and its key findings, conclusions, recommendations based on the results, and other suggested areas to be studied. The study assessed role of financial reporting and auditing in enhancing corporate governance using University of Education, Winneba as a specific case study. The study was underpinned by Foundational theory/agency theory and Institutional theory. The study was underpinned by positivist and quantitative research as the research paradigm and its approach respectively. Descriptive survey was employed for the study. Participants were finance officers, heads of department and senior administrators of the University of Education, Winneba. Structured questionnaire with a was used to collect data. Data were analysed using SPSS by using simple frequency counts and percentages.

#### 5.2 Summary of Major Findings

Regarding the role of financial reporting in enhancing corporate governance at University of Education, it was found that in UEW, financial reporting standards are effective and helps in the reduction of operational and administrative costs. Financial reporting standards in UEW promote transparency and accountability. Financial reporting standards by finance officers, heads of departments and administrators safeguards against servicers and contractors that provide inferior workmanship. Furthermore financial reporting standards in the University of Education, Winneba play a tremendous role in upsurging budgetary saving; hence have the power to increase profitability. It also emerged from the study that financial reporting standards promote trust and commitment between UEW and its suppliers. Finally, the study

revealed that UEW adopts financial reporting standards that ensure that materials products and services continue to be available.

Concerning the role of auditing in enhancing corporate governance at University of Education, Winneba. The findings suggests that auditing in UEW is independent and complies with professional standards and helps evaluate the effectiveness of internal controls. Also in UEW auditing acts as a watchdog for financial operations and financial reporting practices and serves as a yardstick to ensure well-identified, estimated, and realistic budgets. The findings further proves that effective internal audit function can play a significant role within the corporate governance framework of UEW. Finally, it emerged from the study that internal auditors keep a close relationship with management and advise management on how to improve operations.

The study also establish that effective procurement has a direct bearing on the quality of organisational performance. Corporate governance allows companies to decrease the operational risk of the company by using adequate internal and external controls and it plays a tremendous role in enhancing their operational effectiveness. Proper internal audit directly affects quality of corporate governance and organisational performance. Effective financial reporting, auditing and corporate governance helps risk management. Internal audit helps UEW accomplish its financial reporting objectives by bringing a systematic detail of what is done in the UEW.

### **5.3 Conclusions**

The findings confirm that auditing in UEW is independent and complies with professional standards and helps evaluate the effectiveness of internal controls so it is worth noting that whenever there are deviations such as poor planning, unethical practices, they are likely to pose challenges to the university. The findings established

that since UEW is in a competitive world makes them aware on the need to run efficient financial reporting and auditing in order to match with their other public universities. This in turn will enable them to have solid background on value for money in order to generate more internal revenues/funds. In addition, it was revealed by the findings that since relationships within external organisations are established through contracts made them to appreciate that, financial reporting and auditing should be run in an effective manner to enable the institution to achieve its aims, goals, and objectives. Furthermore, Finally, It can be concluded that financial reporting standards in UEW play a tremendous role in upsurging budgetary saving; hence have the power to increase profitability.

#### **5.4 Recommendations**

The following recommendations were made based on the conclusions drawn.

1. Finance officers, heads of department, senior administrators and management should always support the financial reporting and auditing processes because it is central in enhancing transparency and accountability with the university.
2. Positive relationships should be built by finance officers, heads of department, senior administrators and management. This will help them to ensure good financial management and effective auditing to enable the institution achieve its aims, goals and objectives.
3. Finance officers, heads of department and senior administrators of the University of Education, Winneba should appreciate that the institution is in a competitive world. Therefore, they should try their best often to ensure efficient financial reporting and auditing in order to match other public universities. This will ensure their value within the sector to enable the university to have more internal revenues/funds in its coffers.

### **5.5 Suggestions for Further Research**

The following areas can be investigated into:

1. The same study should be delved into but a mixed method approach should be employed to enable more generalisability of the findings.
2. A study should also be conducted to determine the association between employees' gender, educational qualification, and working experience and financial reporting and auditing in UEW.
3. Finally, another should be carried out to investigate the relationship between financial reporting and auditing and employees' job satisfaction in selected tertiary institutions in Ghana.



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## APPENDIX

### Questionnaire for Participants

UNIVERSITY OF EDUCATION, WINNEBA

DEPARTMENT OF ACCOUNTING

I am Adzogou Emmanuel Akpene, a postgraduate student of the University of Education, Winneba. As part of the academic requirement, I am conducting a research on assessing the role of financial reporting and auditing in enhancing corporate governance in University of Education, Winneba. I assure you that any information provided shall be used solely for academic purposes, confidentiality is assured.

**(Please tick and specify when appropriate)**

#### Section A: Background Characteristics

1. Gender: (a) Male  (b) Female
2. Age: (a) less than 30 years  (b) 30-39 years  (c) 40-49 years  (d) 50 & above
3. Marital Status (a) single  (b) Married  (c) divorced  (d) separated  (e) widowed
4. Educational Qualification: a) certificate  (b) diploma  (c) Bachelor Degree  (d) masters  (e) Postgraduate Diploma
5. Working experience: (a) 1-5 years  (b) 6-10 years  (c) 11-15 years  (d) 16-20 years  (e) 21 years & above

**Section B: The role of financial reporting in enhancing corporate governance at University of Education.**

Respond to each statement by indicating whether you SA= Strongly Agree, A=agree;

U =Undecided; D=Disagree; SD = Strongly Disagree

Statement	SA	A	U	D	SD
UEW adopts financial reporting standards that result in reduced operational and administrative costs					
UEW adopts financial reporting standards that promote transparency and accountability					
UEW adopts financial reporting standards that ensures against contractors and service companies that provide shoddy workmanship					
UEW adopts financial reporting standards that ensures that materials products and services are procured in time					
UEW adopts financial reporting standards that eventually result in budgetary saving and increase profitability					
UEW adopts financial reporting standards that promote trust and commitment between UEW and suppliers					
UEW adopts financial reporting standards that ensures that materials, products and services continue to be available					

**Section C: The role of auditing in enhancing corporate governance at University of Education, Winneba**

Respond to each statement by indicating whether you SA= Strongly Agree, A=agree;

U =Undecided; D=Disagree; SD = Strongly Disagree

Statement	SA	A	U	D	SD
Auditing in UEW is independent and complies with professional standards					
Auditing in UEW helps evaluate the effectiveness of internal controls					
Auditing in UEW acts as a watchdog for financial operations and financial reporting practices.					
Auditing in UEW serves as a yardstick to ensure well-identified, estimated, and realistic budgets					
Effective internal audit function can play a significant role within the corporate governance framework of UEW					
Internal auditors keep a close relationship with management and advise management on how to improve operations					

**Section D: Relationship between financial reporting, auditing and corporate governance**

Respond to each statement by indicating whether you SA= Strongly Agree, A=agree;

U =Undecided; D=Disagree; SD = Strongly Disagree

Statement	SA	A	U	D	SD
Effective financial reporting, directly affects quality of corporate governance and organisational performance					
Corporate governance allows companies to decrease the operational risk of the company by using adequate internal and external controls					
Proper internal audit directly affects quality of corporate governance and organisational performance					
Effective financial reporting, auditing and corporate governance helps risk management					
Internal audit helps UEW accomplish its financial reporting objectives by bringing a systematic detail of what is done in the UEW					

**THANK YOU FOR PARTICIPATING IN THIS RESEARCH**