

The Impact of Audit Practices on the Financial Performance of Listed Banks in Ghana

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Received: April 11, 2025

Accepted: September 07, 2025

Revision: June 12, 2025

Published: September 21, 2025. **Vol-6, Issue-3**

Cite as: Brimah, M; Ofei, PA. (2025). The Impact of Audit Practices on the Financial Performance of Listed Banks in Ghana. *ICRRD Journal*, 6(3), 146-158.

Abstract: In the wake of the 2007 financial crises on the corporate lessons from the financial crises OECD (2009) concluded that the crises were largely the result of failures and weaknesses in corporate governance arrangements. This study is investigated the impact of audit practices on the financial performance of listed banks in Ghana. Data was gathered from eight (8) listed banks on the Ghana Stock Exchange (GSE). Secondary data was collected from annual reports, financial statements, and corporate governance disclosures of the banks over a period of ten (10) years between 2013 and 2022. The findings reveal that the audit practices of the banks showed considerable developments throughout the period under review. Over the years, the banks continuously improved their audit practices, as evidenced by the scores reported in 2022, where the minimum score among the banks rose to 90%, with some achieving a perfect score of 100%. The correlation and regression results demonstrated a weak yet significant positive relationship between audit practices and the financial performance of the listed banks. This suggests that improvements in audit practices, guided by directives from the SEC, are associated with enhanced financial performance, as reflected in better ROA and ROE. The study recommends that future research should extend the time frame of studies to provide a more comprehensive view of how corporate governance and audit practices impact financial performance over longer periods.

Keywords: Audit Performance; Financial Performance; Ghana Stock Exchange

Introduction

According to Sanda et al. (2005), much of the scholarly foundation of corporate governance stems from the theoretical contributions of Fama (2012), Jensen and Meckling (2019), and Ross (1973). The concept of corporate governance, as it is known today, began gaining prominence in the 1980s, when the term was used to describe the principles of directing and controlling the management of businesses and organizations (Bozec, 2005). Since then, it has become a significant area of study due to its critical role in fostering economic growth and national development. Corporate governance (CG) is broadly understood as a system of rules and processes that ensure accountability, transparency,

, and fairness in balancing the interests of shareholders and other stakeholders, while guiding management activities with integrity and objectivity (Saha, Moutushi, & Salauddin, 2018). It specifically seeks to address conflicts of interest, prevent corporate misconduct, and implement incentive mechanisms that align the interests of stakeholders (Tornyeva & Wereko, 2012). The corporate board serves as the primary mechanism of internal corporate governance (CG) (Al-Bassam et al., 2018). Its core responsibilities include monitoring and supervising management, providing strategic direction, and reviewing or approving management proposals. While the board plays a crucial role in ensuring effective governance, its effectiveness is often undermined by board culture, which can significantly contribute to governance failures. Kesner (1987) found that 95% of the boards of directors of Fortune 500 companies were failing to fulfil their legal, moral, and ethical responsibilities. In response to such shortcomings, much of the focus on ensuring reliable and credible financial reporting has shifted towards strengthening the audit quality framework.

Problem Statement

Following the 2007 financial crisis, the OECD (2009) concluded that the turmoil was largely attributable to failures and weaknesses in corporate governance (CG) structures, which proved ineffective in fulfilling their intended role of preventing excessive risk-taking by financial institutions. Previous research (Alsurayyi and Alsughayer 2021; Freeman, Wicks, and Parmar 2004; Sanda, Mikailu, and Garba 2005; Yilmaz 2018) have demonstrated a correlation between good CG practises and firm performance. Other studies, (Kumar and Singh 2012; Park and Shin 2004) however, were unable to demonstrate a correlation. The contradictions in these studies findings may be attributable to the limited nature of the data. It is on the backdrop of these revelations that this study focuses on examining the relationship existing between audit factors and financial performance of listed banks in Ghana.

One of the most significant challenges facing Ghana's financial sector is the inadequate prudential regulation of commercial banks. Weak regulatory vigilance, coupled with insufficient capital and reserve requirements, has meant that supervision has often been deprioritized. These regulatory and supervisory shortcomings have contributed to persistent problems in the banking industry, particularly the low recognition of assets and liabilities, which has led to a high volume of non-performing loans. According to Sarpong-Danquah, Oko-Bensa-Agyekum, and Opoku (2022), the broader objective of bank supervision should be to enhance the protection, stability, and efficiency of the sector. Boards of directors play a vital role in shaping overall strategy and ensuring ethical and legal compliance. To remain effective, boards must maintain strong governance structures, with mechanisms such as board independence, board size, frequency of board meetings, and the competence of board members serving as key determinants of bank performance. Similarly, robust audit mechanisms are essential, as they enhance the reliability of financial audits, strengthen financial management, and improve organizational efficiency. Research has shown that external auditors, through strong collaboration with audit committees, play a critical role in safeguarding corporate integrity and promoting financial soundness. Despite these structures, the persistence of poor corporate governance practices among listed banks in Ghana poses a serious threat to their growth and sustainability. As Atuahene (2018) notes, such practices undermine compliance with fundamental governance principles and contribute to the breakdown of control environments. The specific business

problem lies in the need to strengthen audit functions and promote greater transparency in business practices to ensure highly reliable financial reporting.

Objectives of the Study

General Objective

The broad objective of this study is to examine the relationship between corporate governance, audit factors, and financial performance of listed banks in Ghana.

Specific Objectives

1. Examine the relationship between audit factors and the performance of listed financial institutions in Ghana
2. Design a conceptual framework that explains the relationship between audit factors and the performance of financial institutions that are listed on the Ghana Stock Exchange.

Research Questions

1. What is the relationship between audit factors and the performance of listed financial institutions in Ghana?
2. What is the conceptual framework that explains the relationship between audit factors, and performance of financial institutions that are listed on the Ghana Stock Exchange?

Significance of the Study

This study is vital in highlighting the consequences of weak corporate governance on organizational performance and in proposing solutions to address these shortcomings. Its findings will be of particular relevance to business practitioners, researchers, academics, and key stakeholders in the banking sector.

For bank regulators, the study provides valuable insights that can help prevent misconduct and unethical practices while reinforcing strict compliance with regulatory requirements. Investors will benefit from the assurance that proper governance fosters the efficient use of resources, thereby strengthening investor confidence. Researchers and academics will find the study useful as it contributes fresh perspectives to the existing body of literature and helps narrow the gap in knowledge on corporate governance practices. Boards of directors can also draw on the findings to benchmark their performance against that of their peers and improve governance structures.

Literature Review

A study on the moderating role of ownership structure in the relationship between corporate governance and the financial performance of manufacturing firms in Ghana by Sarpong-Danquah et al., (2022) used a general linear regression to analyse a panel dataset of 7 manufacturing firms over 14 years. They found a positive and significant effect of board size, audit committee independence, and size on firm performance. Their study however found a negative relationship between board remuneration and performance. The study further observed that block ownership moderated the relationship between board size, board independence and the financial performance of manufacturing firms. Block share- holdings of the listed manufacturing firms in Ghana played a significant moderating role in the corporate governance-firm performance nexus.

A related study by Nyiranzabahimana (2016) adopted a descriptive research design using a sample size of 109 respondents. Data were collected from primary and secondary sources by means of

questionnaire and documentary analysis. The collected data were presented in tables, analysed and arranged in form of numbers, percentages and frequency distribution, summarized, statistically treated and drafted using the Statistical Package for Social Sciences (SPSS). The findings revealed that banking institutions, mainly Bank of Kigali, apply the principles of internal audit and internal control systems and this helped them to improve financial performance. Also, it was found that the proper internal audit function led to the improvement in financial performance of Bank of Kigali. According to Didier, (2016) internal audit contributed a lot to the financial performance of banking institutions since it has a positive impact on return of assets, it is very useful in detecting errors and fraud and it was shown that there is a strong positive relationship between internal audit and the financial performance of Ecobank Rwanda. Another study conducted by Oscar(2016), had a target population comprised of 105 individuals drawn from different units; auditors, finance officers, accountant officers, cashiers and loan officer of rural banks and a sample size of this study was 83 respondents. The researcher analysed both quantitative and qualitative data. From the findings, 51% of the respondents agreed to a very high extent that there were very high positive impacts of internal audit independence and financial performance of rural banks and other financial institutions, organization and micro financial credits institutions in Tanzania (Hossen & Pauzi, 2025b). The study also reported that 43 (51%) of the respondents agreed to a very high extent that there was a positive relationship between internal audit quality practices and financial performance of the banks and lastly, 44 (52%) of the respondents agreed to a very high extent that a good internal audit control system influence the financial performance of banks in Tanzania.

Also, Hazaea et al.(2020) in their study adopted a descriptive analysis and T-test was used for the verification of the research hypotheses. They found that sticking to standard internal audit, internal auditors' independence and quality governance had significant impacts on banks' financial performance, while the size of internal audits committees, as well as their meeting frequently had insignificant positive impact on banks' performance. Moreover, the country results showed that the use of automated internal audit in banks had an impact on improving financial performance.

More so, Mandala et al. (2017) looked at how the board structure of financial institutions in Kenya affects their overall performance. The research utilised secondary data that was amassed over the course of a decade, from 2006 to 2015 specifically. To examine the effects of the study parameters, the research utilised analysis of correlation, as well as models of moderated and progressive regression. The findings indicated that board structure had a substantial autonomous impact on the performance of financial institutions and that there was no important interference of CEO tenure in this situation. In addition, a substantial moderating impact of the features of companies was observed on the relationship, and the joint effect of board structure, CEO tenure, and the features of companies was observed to be significant.

Methodology

Research Design

The study adopted correlational research design to investigate the relationships between corporate governance practices, audit factors, and the financial performance of listed banks in Ghana. This design is appropriate for this study as it allows for the examination of naturally occurring relationships among variables without manipulating them (Asamoah 2014).

Population

The population of this study comprised of all the eight (8) listed banks on the Ghana Stock Exchange (GSE). Secondary data was collected from these banks on the GSE. The data was collected from annual reports, financial statements, and corporate governance disclosures of the banks over a period of ten (10) years, thus from 2013 to 2022. To ensure accuracy and consistency, the collected data was cleaned and organized, including handling missing values and standardizing variable formats.

Sampling Technique

The study employed a purposive sampling to purposely select the 8 banks on the GSE. According to Creswell, (2017) purposive sampling, also known as judgmental or selective sampling, is a non-probability sampling technique where the researcher selects units to be sampled based on their knowledge and judgment about the population. This technique is particularly useful when the researcher wants to focus on specific characteristics of a population that are of interest to the study. The purposive sampling was strategically used to select banks that meet specific criteria relevant to the research objectives. For instance, banks on the GSE that have full and complete corporate reports from 2013 to 2022 and reports on corporate governance and audit disclosures were carefully selected.

Sample Selection

The criteria include corporate governance practices, audit factors, and financial performance. For corporate governance practices, the researcher selected banks with well-documented and transparent governance practices, such as those with varying board sizes, independence levels, and frequency of board meetings. For audit factors, banks that have undergone significant audit changes, use different audit firms, or have varied audit frequencies were selected. For financial performance, banks with diverse performance metrics, such as those that have shown significant growth or decline in recent years, were included. For the financial performance data, the below criteria were used in selecting the sample for this study.

- i. Banks which were listed on the GSE and operating during the period between 2013 and 2020
- ii. Banks whose annual reports for the periods 2013 and 2020 were available and easily accessible on the GSE website or the bank's website.

Of the eight (8) listed banks, annual complete reports for four (4) banks could not be obtained, thus the resultant sample size of four (4) banks. The banks that met the criteria are GCB Bank, Ecobank, CAL Bank, and Access Bank.

Data Types

The analysis of the study relies on secondary data from the GSE. This data covers various types, each providing different dimensions of information necessary for a comprehensive analysis. The data was collected from the GSE, annual reports, and financial statements of the listed banks. The key data types used include financial data, governance data, and audit data. Governance and audit data were extracted from corporate governance disclosures and audit reports. This process involved data extraction, data cleaning, and data organization/ categorizing.

Financial Performance Data

Financial data include quantitative measures derived from the banks' three main financial statements (income statements, balance sheets, and cash flow statements). This data is typically numerical and

was classified as ratio data, allowing for a wide range of statistical analyses. The metric used was the net profit (NP) from the financial reports. These variables provide insights into the financial performance of the banks, which is crucial for analysing how corporate governance and audit factors influence financial outcomes. The main variables used for the measurement of financial performance of the banks were return on asset (ROA) and return on equity (ROE). However, loan-to-deposit ratio (LDR), loan-to-asset ratio, net interest margin and net profit were used as general performance measures to complement the key variables.

Audit Practices Data

A scorecard was used to score the banks based on their performance on best audit practices as directed by SEC, (2020). For the audit practices, the scorecard was developed using 10 questions to which a 'yes' or 'no' answer may be given. A score of 1 is given for every 'yes' answer while a score of 0 is given for every 'no' answer. Where the annual report is silent on a matter that needs disclosure, it is regarded as a 'no', and therefore a score of 0 is awarded. The scorecard was designed to give results that can be as objective as possible. The key measures used for the audit practice metrics are as follows:

1. Audit Committee Independence and Expertise
2. Audit Committee Meeting Frequency and Duration
3. External Auditor Independence and Rotation
4. Audit Opinion and Going Concern Opinion
5. Material Weakness and Significant Deficiency Disclosure
6. Audit Committee Oversight of Internal Audit
7. Risk Assessment and Management Practices
8. Transparency and Disclosure of Audit Practices and Findings
9. Auditor Tenure and Rotation

Appendix III shows the questionnaire used for the scorecard for audit practice while Appendix IV shows the extracts of provisions in the SEC, (2020) Guidelines to which the question relates. The total score that will be obtained determines the measure of audit practice compliance and an indicator of best and sound audit practice of each of the banks. This data helped in understanding the governance and audit frameworks within which the banks operate and how these frameworks may impact financial performance.

Model Specification

The model specification for the study is as follows;

$$Y_{it} = \beta_0 + \beta_1 Y_{t-1} + \beta_2 (\text{Audit practices}_{it}) + \beta_3 (\text{Size}_{it}) + \epsilon_t$$

Where, Y = the dependent variable (performance of banks). These include: *ROA = Return on Asset*, *ROE = Return on Equity*, *LAR = Loan-to-Asset Ratio*, *LDR = Loan-to-Deposit Ratio*, *NP = Net Profit*. Additionally, total asset was used as a proxy for the size of the bank which was used as a control variable to control for heteroscedasticity.

Data Analysis

Total scores of the banks per the audit best practices scorecards were compared for each of the years within the sample period. Descriptive statistics were employed, including computations to ascertain the percentage increase or decrease in corporate governance scores over the 10-year

period were performed for each bank. Identified patterns and trends were mostly presented in a graphical form using Microsoft Excel to aid understanding. The scores obtained for corporate governance and audit practices of the banks were compared with their financial performance metrics to ascertain whether there was a correlation between these variables based on the study objectives (Hossen, 2023). A Pearson's correlation was run using IBM SPSS to establish whether there was a significant correlation between corporate governance practices, audit practices of banks and their financial performance. Further, regression analysis was performed to establish the extent and the strength of the existing relationship between the variables.

Compliance with Audit Best Practices

As part of the objectives of this study, the researcher sought to find out whether the banks were complying with the directives from the 2020 SEC's audits best practices. All of the four banks selected which were subjected to this research study recorded an increase in corporate governance and audit score by the end of the period under review.

Table 4.1: Audit Best Practices Scores of Selected Banks

Year	GCB Bank	Ecobank	Cal Bank	Access Bank	Min	Max
2013	80.00%	90.00%	80.00%	60.00%	60.00%	90.00%
2014	90.00%	90.00%	90.00%	90.00%	90.00%	90.00%
2015	90.00%	90.00%	90.00%	80.00%	80.00%	90.00%
2016	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
2017	90.00%	90.00%	80.00%	80.00%	80.00%	90.00%
2018	90.00%	90.00%	90.00%	80.00%	80.00%	90.00%
2019	80.00%	90.00%	90.00%	80.00%	80.00%	90.00%
2020	90.00%	90.00%	90.00%	80.00%	80.00%	90.00%
2021	80.00%	90.00%	70.00%	70.00%	70.00%	90.00%
2022	100.00%	90.00%	100.00%	100.00%	90.00%	100.00%

Source: Various issues of Annual Report and Statement of Accounts of the Sampled Banks (2013-2022)

The graphical representation of the scores on the audit best practices of the banks are shown in Figure 4.7

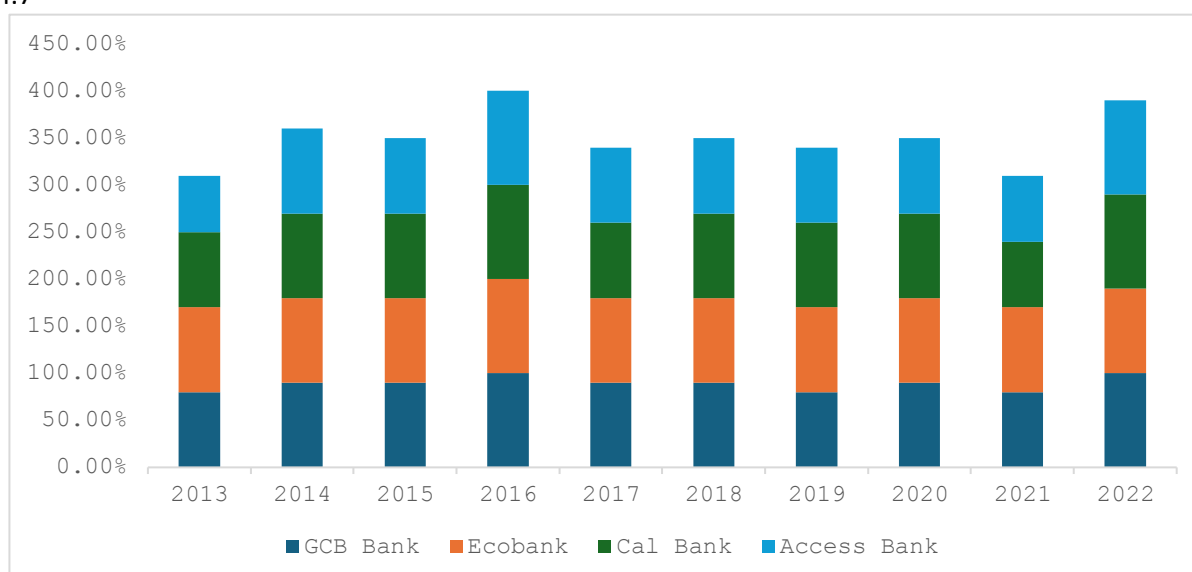
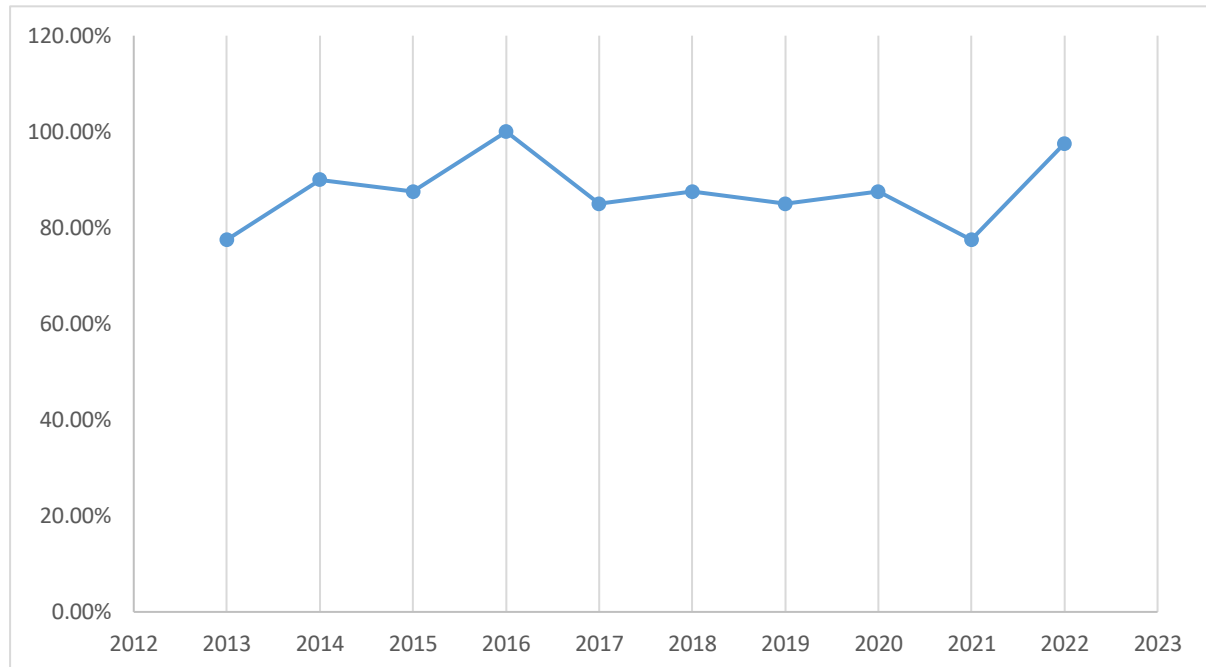


Figure 4.1: Graphical Representation of Audit Best Practices Scores of Selected Banks

Source: Various issues of Annual Report and Statement of Accounts of the Sampled Banks (2013-2022)

**Figure 4.2: Trend of Aggregated Audit Best Practices Scores of Selected Banks**

Source: Various issues of Annual Report and Statement of Accounts of the Sampled Banks (2013-2022)

Correlation and Regression Analysis

A correlation analysis aims at establishing the kind of relationship that exists between two or more variables. To achieve the study's objective, Pearson correlation coefficient analysis between the variables was carried to establish the relationship that exists between audit practices and the financial performance of the selected banks. For the purposes of the study, ROA and ROE were computed and used as the measure for financial performance of the banks. The results of the analysis are shown in Table 4.9. In other to control for heteroscedasticity, the study used the total assets of the bank as a proxy for the size of the bank (as a control variable).

Table 4.2: Correlation Analysis of the Study Variables

Construct	1	2	3
Financial Performance (1)	1		
Audit Best Practices (2)	0.310**	1	
Firm Size (3)	0.687	0.479	1
** .p=1%: *.p=5% (2-tailed).			

Source: Author's Construct, (2024). **NB: (The horizontal numbers of numbers relate to the vertical variables).**

Unlike the correlation analysis, regression analysis measures the strength of the relationship between two or more variables.

Table 4.3: Regression Analysis of the Study Variables

Model		Coeff	S.E	R	F	R ²	t	Sig
1	(Constant)	1.66	1.969	0.068	0.018	0.16	0.843	0.432
	Audit Best Practices	0.113	0.977				0.115	0.912
2	(Constant)	1.829	2.003	0.388	0.294	0.18	0.913	0.403
	Audit Best Practices	0.359	1.025				0.35	0.741
	Firm Size	1.73E-08	0				0.921	0.399
Dependent Variable: Financial Performance								

Source: Author's Construct, (2024).

Relationship Between Audit Factors and the Performance of Listed Banks in Ghana

It can be observed from Table 4.9 that there is a weak positive relationship between Financial Performance of listed banks and audit practices ($r=0.310$), and the relationship is significant at 0.01 significance level ($p \geq 1\% < 5\%$). The implication is that, as more and more banks improve their audit practices based on the directives from the SEC, it will cause an improvement in the performance of their return on assets and the return on equity as well which invariably increases their financial performance. The reverse of this relationship is also true. According to the study results in Table 4.10, the coefficient of determination (R^2), on the other hand, indicates that a unit change in the independent variable (governance and audit practices) can cause a proportional change of 16% ($R^2 = 0.160$). This also implies that governance and audit practices, can explain about 16% of all the changes in the financial performance listed banks. Furthermore, it can be observed in the second model that after adding the size of the firm as a control variable, the R^2 increased by 0.02%. This shows an increase in financial performance of the listed banks when their total asset is considered in the equation. This also implies that, in understanding the impact of corporate governance and audit best practices, it is important to consider the size of the firm in the context of its total assets.

Discussion of Findings

Relationship Between Audit Practices and Financial Performance

The study found a weak but positive relationship between audit practices and the financial performance of listed banks ($r=0.310$), significant at the 0.01 level. This finding aligns with the literature, which underscores the importance of effective audit practices in enhancing financial transparency and performance. According to Beasley et al., (2000) strong audit practices contribute to better financial reporting quality, which in turn can positively influence the financial performance of firms. The weak correlation in this study suggests that while audit practices are important, they may not be the sole determinant of financial performance. The significant p-value indicates that the relationship is statistically meaningful, supporting the assertion that improved audit practices, as directed by the Securities and Exchange Commission (SEC), are likely to enhance banks' financial outcomes. The coefficient of determination ($R^2=0.160$) indicates that approximately 16% of the variance in financial performance can be explained by corporate governance and audit practices. This finding suggests that other factors beyond audit practices contribute to financial performance. As

noted by DeFond & Zhang, (2014) while audit quality is crucial, it is often one of many factors, including managerial practices and economic conditions, that influence a firm's financial performance. The incremental increase in R^2 by 0.02% after including firm size as a control variable highlights the role of firm size in moderating the relationship between audit practices and financial performance. Larger firms, with more resources and better audit controls, might experience greater financial benefits from robust audit practices.

Summary of Key Findings

The ROA was highest for Ecobank Ghana, which consistently recorded an ROA above 15% throughout the ten-year period. In comparison, Cal Bank, GCB Bank, and Access Bank had much lower ROAs, with averages of 6.01%, 5.03%, and 2.74%, respectively. Ecobank's high ROA indicates superior efficiency in asset utilization, which is a critical factor in its financial success. The other banks, while still profitable, did not achieve the same level of efficiency in converting assets into earnings. Similarly, ROE, was also dominated by Ecobank, with an average ROE of 179.76%. This figure is significantly higher than the combined average ROE of the other banks. Despite fluctuations, particularly noticeable in Cal Bank's performance, Ecobank's consistent high ROE suggests effective management of shareholders' equity to generate substantial profits. The fluctuating ROEs of Cal Bank, GCB Bank, and Access Bank point to varying degrees of capital utilization efficiency and financial stability over the period. The analysis of NP showed Ecobank as the most profitable bank, with an average net profit exceeding three million Ghana Cedis. GCB Bank followed with an average of GHS 366,315.54, while Cal Bank and Access Bank recorded significantly lower profits. Access Bank, in particular, struggled, with a notable loss in 2022, reflecting challenges in its financial performance and management efficiency over the period. The NP figures underscore Ecobank's superior operational management and profitability compared to its peers, while Access Bank's poor performance highlights its difficulties in generating consistent earnings.

The analysis of the study also assesses the compliance of selected banks with the 2020 SEC corporate governance best practices, with a particular focus on audit practices over a specified period. The audit practices of the banks showed considerable progress throughout the period under review. Initially, in 2013, the audit performance scores ranged from a minimum of 60% to a maximum of 90%. Over the years, the banks continuously improved their audit practices, as evidenced by the scores reported in 2022, where the minimum score among the banks rose to 90%, with some achieving a perfect score of 100%. This steady improvement suggests that the banks have been increasingly aligning their audit procedures with the SEC's best practices, ultimately leading to more robust and reliable financial governance (Alam et al., 2025). Overall, the findings highlight a positive trajectory in both corporate governance and audit compliance among the sampled banks, indicating a successful adaptation to the SEC's guidelines over the study period. The study conducted a correlation analysis to explore the relationship between governance practices, audit practices, and the financial performance of selected banks, with a focus on ROA and ROE as indicators of financial performance. The results demonstrated a weak yet significant positive relationship between audit practices and the financial performance of the listed banks. This suggests that improvements in audit practices, guided by directives from the SEC, are associated with enhanced financial performance, as reflected in better ROA and ROE. When the size of the bank, represented by total assets, was introduced as a control variable, the explanatory power of the model slightly increased, underscoring the importance of considering bank size when evaluating the impact of governance and audit practices on financial outcomes.

Conclusion

The trend analysis of selected banks over ten years reveals several key insights into their financial performance. Cal Bank consistently demonstrated a higher NIM, with an average of 54.54%, significantly outperforming other banks such as Ecobank and Access Bank. This suggests that Cal Bank was more effective in generating income from its interest-bearing assets. Conversely, Ecobank showed superior efficiency in asset utilization, achieving the highest average ROA of over 15%, which indicates strong operational efficiency in converting assets into profits. In terms of ROE, Ecobank excelled with an exceptional average ROE of 179.76%, reflecting its effective use of shareholders' equity to generate profits. Cal Bank and other banks exhibited fluctuating ROEs, indicating variability in performance over time. The LAR analysis revealed Cal Bank's aggressive lending practices, as it had the highest LAR. In contrast, Ecobank maintained the lowest LAR, indicating a more conservative approach to lending. Similarly, the LDR showed Cal Bank with a high ratio, signifying extensive lending relative to deposits, whereas Ecobank's lower LDR suggested higher liquidity but possibly fewer revenue opportunities.

Recommendation

In terms of audit quality, there should be a focus on mandatory periodic reviews of audit practices. These reviews could involve third-party assessments or peer evaluations to ensure that audits meet high standards. Additionally, promoting auditor independence is essential; policies must be enacted to prevent conflicts of interest and ensure that audit firms remain unbiased and objective in their evaluations. Furthermore, a balanced approach to risk and reward is essential; banks need to carefully manage their loan-to-assets ratios to balance the potential for increased profits with the risks associated with higher credit exposure. Future research should extend the time frame of studies to provide a more comprehensive view of how corporate governance and audit practices impact financial performance over longer periods.

Funding: The research did not receive financial assistance from any funding entity.

Conflicts of Interest: The author has no conflicts of interest to disclose concerning this study.

Declarations: This manuscript has not been published to any other journal or online sources.

Data Availability: The author has all the data employed in this research and is open to sharing it upon reasonable request.

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