CHRISTIAN SERVICE UNIVERSITY COLLEGE

SCHOOL OF BUSINESS

ASSESSING THE EFFECTS OF MANDATORY AUDIT RELIEF ON THE AUDIT PRACTICE IN THE KUMASI METROPOLIS

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Project Work submitted to the Department of Accounting and Finance, Christian Service University College in partial fulfillment of the requirements for the award of Bachelor of Business Administration in Accounting (Accounting Option).

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DECLARATIONS

I hereby declare that this submission is my own work and that is to the best of my knowledge, it contains no material previously published by another person nor material which has been accepted for the award of any other B-Tech of the Kumasi Technical University, except where due acknowledgement has been made in the text.

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DEDICATION

This work is dedicated to the Almighty God for making it reality, also to our families and friends of Christian Service University College for financial and inspirational support through the project work journey.

ACKNOWLEDEMENT

We are so grateful to God for seeing us through the years of Bachelor of Business Administration in Accounting and Finance. We dedicate this work to God Almighty. God has been the wind beneath our wings. His Grace and Mercy have brought us this far and we are grateful. Our deepest appreciation and thanks go to our supervisor, Dr. Benjamin Yeboah, for his guidance and constructive criticisms that helped our stay being focused from the beginning of this work to the end.

ABSTRACT

This study focused on impact of mandatory audit relief on audit practices of SMEs in the Kumasi Metropolis. Primary data were collected from 80 staff of audit firms in the metropolis. The study was guided by three objectives namely, to determine the relevance of mandatory audit relief; effect of mandatory audit relief on the operations of auditing companies and to examine the effect of mandatory audit relief on audit practices of small and medium scale enterprises in the Kumasi Metropolis. The analyses were done descriptively with the help of SPSS, version21.0. This study found out that majority of auditors believe that mandatory audit relief was not relevant to SMEs. They believe that mandatory audit relief can lead to fraudulent financial statement which has severe consequences on the end users of the financial statements. This study observed that mandatory audit relief has significantly reduced the average annual incomes of audit firms from GH¢80,000 to GH¢47,000, staff strength of audit firms from average of 13 to average 7. However, mandatory audit relief has not significantly impacted on client size of the audit firms. This study observed that introduction of mandatory audit relief has reduced compliance audit, construction audit and financial audit decreased in the SMEs. However, tax audit, information system audit and operational in the SMEs have remained the same. The SMEs should be encouraged to undertake all relevant audit services such as compliance audit, construction audit and financial audit. Audit firms in the Kumasi Metropolis should diversify their operations since over reliance of audit service activities will make them have lower income due to the introduction of mandatory audit relief.

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CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

A scholar named Lee once stated that the history of auditing has not gained its desired attention, noting that the early history had not been documented appropriately. This idea has been supported by other researchers, such as Matthews (2013). Research has observed that the goals and techniques of auditing have changed during its years of existence, owing to factor such as economic, political and sociological environment. This reveals that the aim of auditing has never been stagnant.

Literature has shown that the word auditing originated from the Latin word “audire”, meaning “to listen”. This is evident from medieval times in the United Kingdom dates, where the auditor on landed estates heard the accounts read out and checked on behalf of the lord, that his steward had not been negligent or fraudulent (Matthews, 2013). Literature reveals that audits were taking place in 1200 in London and performed in the presence of the people and government officials. During this era, the treasurer read out the accounts to the auditor; while the audit officer ensured the proper accounts of state income and expenses. There was little implementation of auditing, owing to the fact that managers of organizations had no need reporting to shareholders on their supervision of resources (Coetzee, 2015).

With the advent of several companies during the Eighteenth century, owners begun appointing accountants to audit their accounts, ensuring investments were in order. Thus, auditing during this era was limited to detailed verification of all transactions that is to confirm the legitimacy of individuals in charge of fiscal duties (Coetzee, 2015). Historically, industrialization, which caused the need for financing in the nineteenth century (1840 – 1900) led to the most significant enhancement of audit processes. Moreover, the need for auditing heightened from the developments in the economic structure of civilizations. It was during this period that the Joint Stock Companies Act (1844) passed in the UK provided for the appointment of auditors to check the accounts of the company. However, literature reveals that statutory audit and annual presentation of balance sheet to shareholders were made mandatory in 1900 under the UK Companies Act, 1862.

Interestingly, the UK auditing objectives and techniques served as a platform for the early developments of the USA auditing profession. It was observed that auditors of USA were more inclined to balance sheet audit (internal checks) as to the bookkeeping audits of the UK. As opposed to the verification of transaction and arithmetic accuracy of UK audit, the USA audit verify assets and liabilities, and profit and loss analysis (Matthew, 2013). The interest in auditing took a turn from UK to the USA, owing to the economic growth of the USA.

The introduction of computers led to a significant change in auditing process from 1990 to date. An audit deregulation was introduced in UK, 1994. The introduction of the computer technology reduced the need for an auditor because clients could audit on their own. It also altered the emphasis of auditing to assessing the client's own internal controls. The need for auditors in arithmetic accuracy was reduced due to the advent of computers. Auditors were therefore, forced to make computers a part of the auditing process through Computer-Assisted Audit Techniques (CAAT) (Matthews, 2013).

1.2 Statement of the Problem

In Ghana, corporate financial reporting, accounting, and auditing requirements are governed by the Companies Code 2019. The aforementioned Act details the preparation and publication of financial statements. The Act 2019 demands that all registered companies under the Code, irrespective of their size or level of public interest, must be audited by auditors registered with the Institute of Chartered Accountants, Ghana (ICAG). The Companies Code 2019 stipulates that companies must file with the Registrar of Companies, audited statements of finance. Thus, there is little allowance for companies to be relieved from auditing their accounts.

However, World Bank's Report (2014) on Observance of Standard and Codes - Accounting and Auditing (ROSC A&A) recommends Ghana to introduce the concept of audit relief while requiring all medium to large companies' financial statements to be prepared and audited by a member of ICAG. Thus, this study aims to create awareness on the impact of audit relief on audit practices, and bridging the existing gap of limited studies conducted on the said topic.

1.3 Purpose of the Study

This central purpose of this study is to evaluate the effect of mandatory audit relief on audit practices in the Kumasi Metropolis.

1.4 Objectives of the Study

The study specifically sought to look at the following objectives;

1. To determine the relevance of mandatory audit relief to audit practices of small and medium scale enterprises.

2. To explore the effect of mandatory audit relief on the operations of auditing companies in the Kumasi Metropolis.
3. Examine the effect of mandatory audit relief on audit practices of small and medium scale enterprises in the Kumasi Metropolis.

1.5 Research Questions

The following research questions will also serve as a guide for the researcher to carry the study out:

1. What are the relevance of mandatory audit relief to audit practices of small and medium scale enterprises?
2. What are the effects of mandatory audit relief on the operations of auditing companies in the Kumasi Metropolis?
3. What are the effects of mandatory audit relief on audit practices of small and medium scale enterprises in the Kumasi Metropolis?

1.6 Significance of the Study

In light of the limited studies on the ensuing topic, audit professional would positively benefit from the findings of this study, which would keep them informed and help regulate their practices in a mandatory audit relief economy.

Also, findings from this study would be a source of reference for government bodies (such as the parliament, etc.) in making regulatory decisions relating to mandatory audit relief. Thus, the government would be informed of the effects of making audit exemption for some companies and its consequent effect on audit practices.

The Institute of Chartered Accountants, Ghana (ICAG), the authorized body by the Republic of Ghana responsible for training auditors would also benefit from the findings of the study. The results from the study could inform ICAG to examine its program for training accountants, making appropriate alterations to cover knowledge gaps with respect to mandatory audit relief in Ghana.

1.7 Scope of the Study

The study was carried out in the Kumasi Metropolis of Ashanti Region of Ghana. The location was selected because it is one of the biggest cities in Ghana, and as such has an appreciable number of companies such as large and small and medium scale enterprises.

However, the study concentrated on audit practices of small and medium scale enterprises and operations of auditing companies in the study area after introduction of mandatory audit relief.

1.8 Limitations of the Study

The study utilized descriptive research design whereby questionnaires were used to collect data from participants. Unfortunately, some of the respondents did not get sufficient time to fully complete the data collection instrument, owing to their availability during working hours. Considering this limitation, the researchers could not collect data from a large number of staff.

Lastly, some of the respondents encountered difficulties understanding some of the questions outlined in the data collection instrument. For this reason, the researchers had to be stay with each of the respondent when filling-in the questionnaire to explain certain questions to them. This also slowed down the data collection exercise and such an expected number of respondents could not be obtained.

1.9 Organization of the Study

The whole study was organized in five chapters. Chapter One was the introduction and contained background to the study, statement of the problem, purpose of the study, significance of the study, scope of the study, limitations of the study and organization of the study. Chapter Two reviewed related literature that are relevant to the study. The literature review had four sub-sections, namely conceptual review, theoretical review and empirical review and conceptual framework. Chapter Three was the research methodology and contained research design, sampling techniques and sample size, data collection instrument, data collection procedure and data analysis. The results and its discussion were captured in Chapter Four. The last chapter, Chapter Five, covered the summary of the major findings, conclusions, and recommendations and suggestions for future studies.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter reviewed conceptual, theoretical, and empirical literature related to auditing, its practice, profession, and regulations surrounding it in the Ghanaian society.

2.2 Conceptual Review

Concerning the topic under study, this paper reviewed concepts related to audit and its governing regulations. Reviews on the following subtopics have been discussed intensively: Definition of auditing; Types of audits; Relevance of auditing; Limitations of auditing; and an Overview of audit regulations in Ghana.

2.2.1 Auditing Defined

Bragg (2018) defined auditing as an examination of an existing system, report, or entity. It has commonly been attributed to the process of testing and weighting of evidence that is the verification of accounting data, its accuracy and reliability.

A comprehensive definition of auditing has been given by Spicer and Pegler (1978). This details auditing as an examination of books of accounts and vouchers of business, as will enable the auditors to satisfy himself that the balance sheet is properly drawn up, so as to give a true and fair view of the state of affairs of the business and that the profit and loss account gives true and fair view of the profit/loss for the financial period, according to the best of information and explanation given to the auditor and as shown by the books; and if not, in what respect the auditor is not satisfied. Auditing, as defined by the Institute of Chartered Accountants of India, is a systematic and independent examination of data, statements records of operations and performance (financial or otherwise) of an enterprise.

Dicksee and Montgomery (2000), also defines auditing as an examination of accounting records carried out with the view to establishing whether they correctly and completely reflect the transaction they relate to. Moreover, Mautz (1978), defines auditing as the verification of accounting data, determining the accuracy and reliability of accounting statements and reports. Batliboi (2006) has explained an audit as an intelligent and critical scrutiny of the books of accounts with their corresponding documents and vouchers for the purpose of ascertaining whether the working result for a particular period(s) as shown by the profit and loss account and also the exact financial condition of the business as reflected in the balance sheet are truly determined and presented by those responsible for their compilations.

The various definitions and explanations to the term audit or auditing depicts the certain essentials of auditing as stated below:

1. A scientific thorough systematic examination of books and financial and legal records of the organization.
2. Purposed to ascertain how far the examinations present a true and correct view of the state of affairs of a particular concern.
3. The account to be examined must be prepared by an accountant, other than the auditor.
4. The scope of audit is not limited to the business concern but may be for non-commercial concern.

5. The auditor has to satisfy himself with the authenticity of the financial statements and report that they exhibit a true and fair view of the state of affairs of the concern
6. Audit is done with the aid of vouchers, documents, information and explanations received from the authorities.

The primary objective of auditing is to report to owners of a company, whether the balance sheet gives a true and fair view of the company's state of affairs and the profit and loss account gives a correct figure of profit or loss for the financial year. Its secondary objective is to detect and prevent frauds, and also to detect and prevent errors.

2.2.2 Types of Audits

Various types of audits may be performed in an entity. Below are some of the kinds of audit (Braggs, 2018):

1. *Compliance audit:* is an examination of the policies and procedures of an entity or department, to identify its compliance with internal and/or regulatory standards. This is frequently used in regulated industries or educational institutions.
2. *Construction audit:* refers to the evaluation of the costs incurred for a specific construction project. The analysis in such an audit may include contracts granted to contractors, prices paid, overhead costs allowed for reimbursement, change orders, and the timeliness of completion.
3. *Financial audit:* focuses on the analysis of the fairness of the information contained with an entity's financial statements. It is practically conducted by a firm independent of the entity under scrutiny.

4. *Tax audit:* is an examination of the tax returns submitted by an individual/business organization, to identify the validity of tax information and any resulting income tax payment.
5. *Operational audit:* is a detail analysis of the goals, planning processes, procedures, and results of the operations of a business. This can be carried out by an internal or external auditor.
6. *Information systems audit:* involves reviewing the controls over software development, data processing, and access to computer systems. This objects to spot any events that is capable of impairing the ability of IT systems to provide vivid information to users, and also to ensure restricted access of unauthorized parties to data.
7. *Investigative audit:* is an investigation of a specific area/individual when there is a suspicion of inappropriate/fraudulent activity. The purpose is to locate and remedy control breaches, and also to collect evidence in case making charges.

2.2.3 Relevance of Auditing

The importance of auditing most often than not outweighs its demerits. Literature has provided some of the advantages of auditing as listed below:

1. From the point of view of an entrepreneur, auditing helps to detect and rectify errors and fraud, updating accounts, and receiving suggestions for improvement.
2. Also, an audit that results in identifying a clean account builds the reputation of the business, and can be used as a guarantee for a loan from a financial institution.

3. The practice of audit ensures that organizations are meeting the regulations of the state.
4. Auditing ensures proper valuation of assets and comes in handy for agency.
5. For an investor, auditing ensures proper valuation of investments, ensuring good security and moral checks of employees, in order to protect his interest.
6. Audited accounts facilitates settlement of claims on insurance, retirement/death of a partner
7. Audited accounts are used as the basis for identifying the true value of a business in case of selling the company.
8. Auditing helps management to understand the financial position of the business and consequently supporting their decision making, such as setting up an internal audit unit.
9. Auditing also facilitates taxation and calculation of purchases.
10. The audit accounts of a firm can be utilized as a material evidence in the court of law.

2.2.4 Limitations of Auditing

Notwithstanding the enormous benefits of auditing, the practice suffers from certain deficiencies such as:

1. Auditing may not reveal all frauds/errors committed with deceitful intention. That is auditing may not identify accounts that have intentionally been manipulated.

2. Auditing may not capture complete or correct information or full explanation. The audit report is affected extensively in event of provision of false or incomplete information or explanation.
3. Auditors are not experts in all fields of concern. Owing to this, they have to rely on the opinions of other experts such as lawyers, solicitors, architects, etc.
4. Auditing does not guarantee aptness of financial accounts. This is because the auditor cannot check each and every transaction, therefore, may be required to do test checking.
5. An audited account may not reflect the current value of assets and liabilities due to trends of inflation. Such information may not be useful in the present and future.
6. Auditors may also suffer corruption upon the influence of management which may result in false results even after auditing
7. Auditing recognizes little to no relevance of policies, efficiency, and effectiveness of management.

2.2.5 Overview of Audit Regulations in Ghana

In Ghana, corporate financial reporting, accounting, and auditing requirements are governed by the Companies Code 2019 (IFAC, 2016). The aforementioned Act details the preparation and publication of financial statements. The Act 2019 demands that all registered companies under the Code, irrespective of their size or level of public interest, must be audited by auditors registered with the Institute of Chartered Accountants, Ghana (ICAG). ICAG during the 1990s, issued the Ghana National Accounting Standards. And in 2007, adopted the International Financial Reporting Standard (IFRS) as the accepted accounting standards for preparing of financial statements of all government enterprises, banks, insurance companies, securities brokers, pension funds, and public utilities. To date, the IFRS is adopted for implementation by all Small Medium Enterprises (SMEs).

The Companies Code 2019 stipulates that companies must file with the Registrar of Companies, audited statements of finance. The Act, 2019 alludes that all registered companies must be audited by auditors registered with the ICAG. The ICAG is the authorized body for setting out the auditing standards implemented in the country. The ICAG has since 2007 resorted to International Standards on Auditing (ISA) and other International Auditing and Assurance Standard Board (IAASB) for pronouncement (IFAC, 2016).

Other regulations stipulated include but not limited to; "companies registered under the Code shall not transact any business, exercise any borrowing powers, or incur any indebtedness, until it has delivered to the Registrar a return in duplicate in the prescribed form containing the name and address of its auditors. The Code stipulates that the books of account of a company shall at all times be open to inspection by the directors, secretary and auditors of the company. Also, the Code demands that a report by the auditors in accordance with section 133, must be shared by directors to every member of the company, and/or every holder of debenture(s).

The Code states that "the auditor's report shall consist of a report, addressed to the members of the company, by an auditor(s) duly qualified and appointed as auditors of the company in accordance with section 134 of the Code, on the books of account of the company, and on every balance sheet, profit and loss account, and all group accounts to be sent to members and debenture holders of the company in accordance with section 124 and 127 of the Code, and shall contain statements as to the matters mentioned in the Fifth Schedule of the code."

2.3 Theoretical Review

Theoretical review explains how a theory shapes research and our understandings since research is carried out in the frame of exploring theories. Under this study, the theories employed are Agency theory and the Stakeholder theory

2.3.1 Agency Theory

Most often than not, the law of agency is confused with the concept of agency theory. The law of agency focuses on the legal relationship between a company and its directors; whereas, the agency theory explains the relationship between a company's owners and its managers. The agency theory as developed by Jensen and Meckling arose from the growing separation of company's owners from the management of the company. They defined the agency relationship as a form of contract between owners of a company (as principals) and its managers (as agents). In their definition, the agents are expected to act on behalf on the principal, upon gaining the authority to making decisions from the principal. It is expected of agents to act in the best interest of the principals. Jensen and Meckling indicated that this contract does not necessarily be in writing; thus, it may be established on implicit terms.

Tiessen and Waterhouse in support of the theory noted that the establish relationship between a principal and an agent is to act reasonably to maximize the interest of both the agent and the principal. The interests of the owner (principal) is associated with the returns of the company (dividend) and also the value of their shares. The long-term financial prospects and profitability for the firm determines the value of owner's shares. Other principals may be debenture holders; whose interest lies in the sound financial management by the agents (managers). The managers (agents) on the other hand do not have direct interest in the returns and long-term profitability of the firm.

However, their main interests linked to the size of remuneration and maintaining their status as managers. Unless otherwise, their remuneration is tied to the returns of the company. However, it is close to impossible to maintain a perfect relationship where agents act solely to maximize the interests of owners. Most often than not, there is a conflict of interest because the agents' decisions affect their interests and that of their owners. Therefore, how can managers be encouraged to act in the best interest of the shareholders?

A scholar named Eisenhardt pointed that there is a natural conflict of interest inherent in the agency relationship. This can be termed as agency conflicts. Agency conflict may arise owing to a number of reasons. This include but not limited to moral hazard, effort level, earnings retention, risk aversion, and time horizon.

1. *Moral hazard:* There is moral hazard when an agent (managers) concentrate on expanding their interest in their status more than that of their owners. Managers' interests include receiving benefits such as company car and apartment, attending sponsored events, etc. According to the Jensen and Meckling, managers' are highly eager to receiving these benefits when they are not owners of the firm, otherwise, own a few shares.
2. *Effort level:* Owners suffer from effort level of managers' performance, when these managers do have little to no shares in the company. Minimal effort of managers leads to minimal returns of the company, which affects the interest of owners. Whereas, managers with fixed remuneration still satisfy their interest at the expense of owners, when they put in less effort.
3. *Earnings retention:* The size of the company most determines the remuneration of its agents (managers), rather than the profits raised. This

motivates managers to expand the company through increasing the turnover of sales and assets. Thus, managers are likely to re-invest profits into capital investments, instead of increasing owners' interest (dividends) with profit recouped.

4. *Risk aversion:* Owners of a company objects to increase their interest, sometimes through investment in high risk projects capable of yielding enormous returns. This is in opposition to a manager whose interest is maintaining a long-term steady remuneration and employment status with the company. Therefore, such managers might be risk averse, and reluctant to invest in high-risk projects.
5. *Time horizon:* While shareholders are interested in the long-term financial prospect/profitability of the company to increase their shares' value; managers are mostly concerned with the short-term. This is mainly because managers may be compensated on annually based on returns on investments and also, the thought of not staying with the company for a long period of years.

Coetzee (2016) alluded that these problems of conflict arises owing to information asymmetry, that is the principal cannot easily verify the appropriateness of the agent's behavior, therefore leading to incurring costs. Agency cost can be defined as the value loss to shareholders that arises from the divergence of interests between the shareholders and the management of the company. Jensen and Meckling opined that conflicting interest of both parties needs to be balanced, ensuring that neither party enhance their wealth at the expense of the other. The researcher Adams, pointed that to ensure this equilibrium, the agent and principal implicitly undertake to bear costs. According to Jensen and Meckilng, there are three kinds of agency costs, which include the cost of monitoring, residual loss, and bonding loss.

1. *Bonding cost*: Owners incur cost in light of providing incentives to mangers in order to act in their best interest. This cost is incurred by owners with the view of reducing the size of agency problems. Incentives to managers may include free company shares, cash bonuses, share options, etc.
2. *Residual cost*: This refers to cost inflicted on owners as a result of managers' decision that do not favour the interests of owners. For instance, a decision by managers to acquire a subsidiary company by paying more than it is worth would be detrimental to owners who end up having a fall in share price. However, managers satisfy their interest of enhancing their managerial status.
3. *The cost of monitoring*: in order to ensure that managers are acting in the best interest of owners, owners have to incur the cost of instituting monitoring mechanisms. This is to monitor managers' actions, decisions, and performance. An example of a monitoring mechanism used by owners is requiring managers to present to them, an annual report and accounts, which outlines managers' financial performance and the company's financial position. Another perfect example is the cost incurred for appointing an auditor to scrutinize the accounts of the company.

Deegan (2009) opined that incentives problems are at the heart of agency theory. As such, a well-functioning firm is one that minimizes agency cost; that is, making managers pay for actions that will harm the owners. These cost can be reduced by devising remuneration that gives agents incentives to act in owners' interests. Also, by having a large proportion of debt on the long-term capital structure of the company. Lastly, by having greater proportion of independent board of directors to monitor the decisions taken for the company by executive management.

The need for auditing has become paramount owing to the increasing development of relationship of owners and managers (Coetzee, 2016). Therefore Knechel et al (2007) indicated the need for assurance to be given by auditors regarding reliability and credibility of financial information used for making decisions. This is to maintain confidence of those who invest in businesses.

2.3.2 Stakeholder Theory

Christopher (2010) indicated that the stakeholder theory gives more inclusive theory than the agency theory, considering the growing concern for accountability by the society. This has led to the gradual shift from agency theory to patronize of the stakeholder theory (Brennan & Solomon, 2008). The stakeholder theory was first published by Edward Freeman in 1984. The theory is of the view of capitalism that emphasis the interconnected relationship between a business and its stakeholders. An early definition by Freeman of stakeholders is, a group of people who can affect or are affected by the achievement of the organization objectives. Friedman in his study noted that the preceding definition included individuals outside the firm, as such individuals may consider themselves as stakeholders without the organization noting them as such. Freeman further enhanced his definition to imply individuals who are vital to the survival and success of an organization. The main groups of stakeholders comprise: Shareholders, Employees, Customers, Suppliers and distributors, and Local communities.

However, Friedman identified other groups as stakeholders to a firm. These include but not limited to the media, the general public, government, regulators, policymakers, competitors, future generations, business partners, etc. This implies that there are two categories of stakeholder, i.e. the primary and secondary stakeholders.

The primary stakeholders are noted to be those that are engaged in economic transactions with the business (examples, shareholders, employees, customers, etc.) The secondary stakeholders are otherwise not directly engaged in the economic affairs of the firm, but however, can be or are affected by the actions of the firm (examples, general public, the media, communities, etc.).

Shareholders have a stake or are interested in the company's financial returns; whereas, employees have a stake in their remuneration and safety provided by the firm. Customers' interest lie in the quality and value of product/services provided by the firm; whiles suppliers/vendors are interested in the revenue generated from providing their services to the firm. The government as a stakeholder is interested in the firm's contribution to the GDP and payment of taxes.

The stakeholder theory argues that an organization should create value for all stakeholders, rather than just for shareholders. Literature had observed that the need for audit was developed in reaction to stakeholders' need to access information about company's performance. This observation has also been barked by Hevlund et al (2010) from his statement, "the auditor's work reflects societies' need for trustworthy information". Flint opined that audit is essential to ensure accountability, since it is a control mechanism to monitor conduct and performance. Porter (2009) noted that the quest for accountability of managers by the world at large, has led to the need for the auditing to provide independent services that scrutinizes mangers actions against their responsibilities. Therefore, it can be established that reliance is placed on audit for managers to fulfil their accountability (Coetzee, 2016).

Literature has projected auditing in terms of social control, demanding auditors to represent the best interest of society at large (Carnegie & Napier, 2010). Thus, it is the obligation of the auditor to gather sufficient, and suitable or appropriate audit evidence in order to infer reasonable conclusions for an audit opinion. Brennan and Solomon (2008) opined that a key ingredient to an organization's success are its accountability to stakeholders and their responsibility of society.

2.4 Empirical Review

As indicated in the preceding chapter, very little studies or research has been conducted in on this topic of mandatory audit relief and its impact on audit practice. The relevance of audit cannot be undermined, however, it has been instituted in some countries such as South Africa, Malaysia, Australie, etc., to exempt certain categories of companies from mandatory audit. This study therefore sought to review the findings of preceding studies on the impact of mandatory audit relief.

In South Africa, Coetzee (2016), examined the impact of mandatory audit relief on the audit practice. His study followed a regulatory reform in the South African Companies Act, 71, 2008, which became effective in 2011. The reform mandated all public and state-owned companies to annually audit their financial statement; however, legislated that unless for public interest, private and personal liability companies are exempted from annual audit of their financial statements. The researcher upon observing the direct impact of the reform on audit practices, especially on small and medium-sized audit practices, organized the study to examine the impact. The study determined the impact of the reform as against the need for an audit, organizational arrangements, social factors, technology, physical settings, organizational performance, and sustainability. Using a qualitative research approach, the study was carried out with constructivism as a philosophical worldview. Considering the objectives of the descriptive study, a multiple case study strategy was utilized. The findings of the research revealed that there was a need for financial statement audit, where the audit was in the interest of the public. It was identified from the sample that small and medium-sized audit practices, as a result of the reform, switched their goals and strategies from audit services to other service offerings. The switch in service offerings led to an increase in lower level qualification staff among the sampled small and medium-sized audit practices, as compared to the past. There was an increase in income from other service offerings, while small and medium-sized audit practices experienced reduction in audit engagement returns. Moreover, the sampled small and medium-sized audit practices face challenges with respect to their role as training officers for the South African Institute of Chartered Accountants (SAICA) and/or the South African Institute of Professional Accountants (SAIPA). It was revealed that sole practitioners were mainly concerned about the sustainability of their practices in future. Nevertheless, majority of the sample bear the view that future role of auditors will remain to be relevant. The study revealed that the mandatory audit relief impacted most significantly sole proprietors, and to a lesser degree on small audit practices. This is in comparison to the impact of the positive consequences in the case of medium audit practices.

According to SAICA's publication in 2012 about the revised Companies Act of South Africa, it spelt out that SMEs may not be obliged to bear the cost of an audit. That is irrespective other factors, companies scoring below 350 points in the Public Interest Score were not mandated to have an audit. Therefore, these companies in place of an audit must have an independent review by a registered auditor. These companies are also mandated to have their financials independently compiled and reported. According to the report, the decision to not have an audit may heavily impair an organization's ability to obtain external funding.

It was observed that a review had lower level of assurance that a firm's financial statement does not contain any known errors or misstatements. Also, some of the SMEs with less than 100 Public Interest Score, were capable of saving cost owing to the fact that they were no longer obliged to audit their accounts. It was observed that the cost involved in performing an audit among such companies were supersedes its corresponding benefits, thus, making the lower level of assurance from financial reviews more beneficial to them. This implied that the forgone cost imbedded in auditing could be re-invested into the businesses or utilized to reduce debt in such firms, which was the intention of the reform.

However, a later publication in 2013 by the SAICA from their survey confirmed that small and medium accounting firms still preferred audits. A majority of 85.7% of the survey sample indicated that the work effort for an independent review was equal to between 60 to 100% of an audit. The study revealed that only 40% of all firms eligible for an independent review in 2012 actually had an independent review. The sample for the study constituted small and medium accounting firms. Out of the 85.7% respondents, 32.1% indicated that the work effort in independent review will equate to 80% to 100% of an audit.

Moreover, the survey showed that audit firms providing both independent reviews and counting services noted a lower cost and lower billable hours charged for the performance of review services; as compared to firms who provided review services only. As opposed to the aim of the reform, the Regulation 29(5) of the Act disallows these economies of scope, which consequently result in increased costs. The objective of the reformed Act was to reduce cost and regulatory burdens for small-sized firms, however, it prohibits the preparer of financial statements from being the independent reviewer. Thus, such firms relieved of mandatory audit must incur double cost for appointing professional(s) to prepare their statements and another to review. This is in opposition to the form Act, Section 275(3), which allowed the auditor of such firms to also perform certain additional non-audit services. Majority of respondents (51.7%) indicated that the cost of independent review will be increased to be equal to or more than the cost of an audit.

The findings showed that practicing firms indicated that the time used for a review is significantly less when compared that used for an audit. Also, there is a significantly less margin difference between the review and an audit. The study concluded that firms agree that the cost of having an independent financial report as well as an independent review is very likely to exceed the cost of securing a voluntary audit. Also, the Regulation 29(5) is in contrary to the intent or its objective.

CHAPTER THREE

METHODOLOGY

3.1 Introduction

This chapter provides methodology of the study. The methodology covers the research approach, research design, population of the study, sampling techniques and procedures, sample size, data collection instrument, data collection procedure and data analysis.

3.2 Research Approach

The study adopted quantitative research approach. Quantitative research approach uses positivist claims to determine relationship between or among phenomena. Quantitative research approach is more scientific than qualitative research approach for two main reasons (Grix, 2018).

Firstly, one of the key features of any scientific study is generalization and this is better achieved through quantitative research approach. Studies most often rely on samples rather than the entire population due to data on availability time and financial constrain (Kothali, 2004). However, with the quantitative research approach, outcome of a study based on a sample can be generalized to the entire population.

Secondly, another feature of scientific studies is hypothesis formulation and testing and this is only achieved by quantitative research approach. In view of this, the researchers employed quantitative research approach to study the effect of mandatory audit relief on audit practices in the study area.

3.2.1 Research Design

Within the class of quantitative research approach, this study relied on descriptive design. This is because, descriptive research design helps to know the true state of affairs in a particular situation or setting. It helps to answer questions relating to what, why, how and when; thus revealing realities of effect of mandatory audit relief in the Kumasi Metropolis.

3.3 Study Population

The population of the study is the staff of audit firms in the Kumasi Metropolis. Some of the auditing firms in Kumasi Metropolis include Accounting Bean counters Centre in Adum, Pannell Kerr Forster at Danyame-Ahodwo, Shapages Consult at Asafo, Neptune 5 Superior at Adum, Dapnab Consult at Adum, Osei Owusu-Ansah and Associate at Adum, Knight Systems Incorporated at Abuakwa-Maakro, Asamoa Bonsu & Co at Adum and K.D.A Accounting at Adum, The Law Office of Clinton Consultancy, Richard Owusu-afriyie & Associates at Mbrom Mbrom and Adu Amoah & Associates at Adum. The target population consist of 100 employees of the listed auditing firms in the Kumasi Metropolis.

3.4 Sampling Techniques

The difficulty of collecting data from the whole population due to financial and time constraints and makes sampling inevitable element in research work. According to Agyedu (1992), sampling makes it possible to limit a study to a relatively small portion of the population. A sample is thus a representative selection of a population that is investigated into in acquiring statistical information of the whole.

The study adopted two sampling methods and these were purposive and convenience sampling. In the first instance, the respondents were staff of Auditing companies within Kumasi Metropolis. Purposive sampling method fits well into the study because in the studies like, it is important to selected people who had knowledge and understanding about the issue under consideration. Purposive sampling was used to get kind of people who would help get the right data for the study and these were the staff of auditing companies in the metropolis.

After identifying the kind of people from whom data could be collected, this study conveniently sampled them based on two criteria. Firstly, willingness to participate in the study and secondly accessibility to data at the time of study. Thus, among the audit companies, only ten participated in the study and they were Accounting Bean counters Centre in Adum, Pannell Kerr Forster at D Danyame-Ahodwo, Shapages Consult at Asafo, Neptune 5 Superior at Adum, Dapnab Consult at Adum, Osei Owusu-Ansah and Associate at Adum, Knight Systems Incorporated at Abuakwa-Maakro, Asamoa Bonsu & Co at Adum, K.D.A Accounting at Adum and The Law Office of Clinton Consultancy; hence the staff of these companies were included in the study.

3.4.1 Sample Size determination

The sampling formulae proposed by Yamane (1967) was used to compute for the sample size.

The formula is given: $n = \frac{N}{1 + N(e)^2}$ …………………………………… (1)

Where n = sample size, N = total population and e = marginal error. The marginal error of 5 percent is sufficient to remove sample bias in the data.

$$n = \frac{100}{1 + 100(0.05)^2} = 80$$

Therefore, the sample size of the study was 80 staff of listed auditing firms in the Kumasi Metropolis.

3.5 Data Collection Instruments

The study adopted questionnaire as data collection instrument because it has benefit of gathering data from a relatively large number of people in a short period and it grants the possibility of being replicated. Questionnaire may contain very different types of question and in this study different set of questions were posed and these included close and open ended questions. The open-ended questions contained in the questionnaire were aimed at allowing respondents to give further explanation and suggestions on issues relating to mandatory audit relief.

The close-ended questions were in the form of Likert Scale ranging from strongly disagree (1) to strongly agree (4). The study avoided the neutral answers and this was in line with views expressed by Raaijimaker*et al*. (2000) that the mid-point neutral statement of neither agreeing nor disagreeing is confused with "don't know" or "not available." In this study, it was preferred that respondents make a definite choice, as is always the case in social research, rather than choosing a neutral position on the scale.

The questionnaire had four sections, namely section I, Section II, Section III and Section IV. Section I contained questions on socio-demographic and job characteristics of the respondents. Section II contained questions on relevance of mandatory audit relief to audit practices of small and medium scale enterprises. Section II contained questions on effect of mandatory audit relief on operations of audit firms and Section IV was on effect of mandatory audit relief on audit practices of small and medium scaled enterprises.

3.6 Data Collection Procedures

The collections of data were done in the selected auditing companies between 20th January, 2020 and 23rd January, 2020. Permission was sought from the management of the selected companies through introductory letter obtained from the Christian Service University College.

The questionnaires were administered on the staffs by the researchers after permission was granted. The respondents were encouraged to fill in the questionnaires in the presence of researchers. The purpose of this was to ensure high response rate and to help clarify all misunderstanding of some questions contained in the questionnaire. The study acted in accordance with questionnaire administration guidelines provided by Gray (2009). The researcher informed the respondents the purpose of the study, the extent of their engagement in the study and assured them strict confidentiality.

3.7 Data Analysis Techniques

The analyses of data were done descriptively and quantitatively. The characteristics of the respondents and the research objectives were described, and then frequency distributions used to highlight the responses.

This study further employed “before and after analysis” to determine the effect of mandatory audit relief on operations of auditing firms and auditing practices of small and medium scale enterprises. The study compared operations of auditing firms before mandatory audit reliefs to after introduction of mandatory audit relief. Similarly, the study compared auditing practices of small and medium scale enterprises before mandatory audit relief to after the introduction of mandatory audit relief.

CHAPTER FOUR

RESULTS AND DISCUSSIONS

4.1 Introduction

This study focused on impact of mandatory audit relief on audit practices. This study collected data through questionnaire administration from 80 auditors in private audit firms in Kumasi Metropolis. The presents and discusses the data collected and this covered the followings objectives;

1. To determine the relevance of mandatory audit relief to audit practices of small and medium scale enterprises.
2. To explore the effect of mandatory audit relief on the operations of auditing companies in the Kumasi Metropolis.
3. Examine the effect of mandatory audit relief on audit practices of small and medium scale enterprises in the Kumasi Metropolis.

4.2 Socio-demographic characteristics of respondents

The socio-demographic characteristics of the respondents considered in this study are sex, age, highest educational attainment and years of service in their respective place of work. The responses on the socio-demographic characteristics are summarized in Table 1.

Table 1: Socio-demographic Characteristics of Respondents (N=80)

Variables	Category	Frequency	Percentage
Sex	Male	52	65
	Female	28	35
	30-34	13	16.2
Age of respondents in years	35-39	27	33.8
	40-44	18	22.5
	45-49	13	16.2
	50 and Above	9	11.3
The highest educational attained	HND	22	27.5
	Bachelor degree	32	40
	Master degree	26	32.5
Years of service within the organization	6-10 years	12	15
	11-15 years	36	45
	16-20 years	32	40

Source: Field data (2020)

The results in Table 4.1 show that males were 52 (65%) and the females were 28 (35%), showing males dominance in internal audit profession. This is probably because internal audit is perceived to be difficult because of work involved and frequent movement of internal audit officials which takes them from the comfort of their homes. These combined make the work unattractive for most women because per Ghanaian tradition, a married woman is supposed to be at home most often to take care of children and household chores even if the woman is economically active.

From Table 1, the results show that 13 (16.2%), 27 (33.8%), 18 (22.5%), 13 (16.2%) and 9 (11.3%) of the respondents were between 30-34 years, 35-39 years, 40-44 years, 45-49 years and 50 and above years respectively. The age distribution suggests that majority of the respondents (72.5%) were in their youthful age (30-44 years).

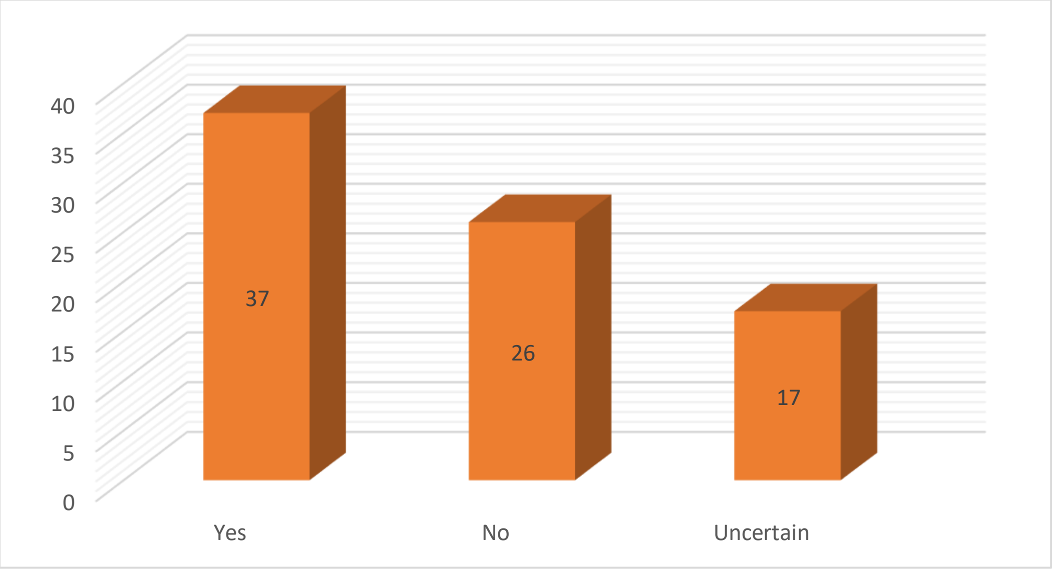
Youthfulness is characterized by two important things relevant for productivity. Firstly, energy to work and secondly, more time to contribute actively to service. Because they are youthful; hence energetic and with less social ties, they are expected to perform their functions as expected of them. It must be emphasized companies also have a good number of adult and more experienced auditor. Therefore, the blend of youths and adults promote learning and mentorship which makes the audit services flourish in the metropolis.

Table 1 further shows that the respondents HND (27.5%), Bachelor Degree (46%) and Master Degree (32.5%) as highest qualification attained. The years of service of the respondents were 12 (15%), 36 (45%) and 32 (40%) 6-10 years, 11 and 15 years and 16 and 20 years respectively. The respondents had required academic or professional qualification to work as Auditors. This presupposes that the Auditors in the metropolis had gone through education and training needed for the work. This coupled with years of service gained in their respective places of work is an indication that they know the audit work ethics, roles and other things required to perform audit services in the metropolis and Ghana as a whole.

4.3 Relevance of Mandatory Audit Relief to Audit Practices of SMEs

This section of the study focused on research objective one: "to determine the relevance of mandatory audit relief to audit practices of small and medium scale enterprises". This study first addresses this objective by first, asking the respondents whether or not, and mandatory audit relief is relevant for SMEs and the responses are summarized in Figure 1.

Figure 1: Relevance of Mandatory Audit Relief to Audit Practices of SMEs



Source: Field Data (2020)
Relevance of Mandatory Audit Relief

From Figure 1, 37 (46.2) and 26 (32.5) noted that mandatory audit relief was not relevant to SMEs and was relevant to SMEs respectively. The remaining 17 (21.3) were not certain whether mandatory audit relief was relevant to SMEs for not. Those who were against the introduction of mandatory audit relief noted that this relief can lead to fraudulent financial statement. This has severe consequences on the end users of the financial statements.

4.4 Effect of Mandatory Audit Relief on the Operations of Auditing Companies

This focus on the second research objective**:** "To explore the effect of mandatory audit relief on the operations of auditing companies in the Kumasi Metropolis". To address this objective, this study focused on key elements of operations of audit firms and these include revenue generation, client size, staff strength and services offered. The study asked the respondents whether the introduction of mandatory audit relief has had any effect of any of them and the responses are shown in Table 2.

Table 2: Effects of Mandatory Audit Relief on Operations of Audit Firms

Indicators	Before Mandatory Audit Relief	After Mandatory Audit Relied	Independence Samples T test
Average Income generation per annum (GH¢)	80,000	47,000	0.000
Average Client size	88	81	0.674
Average Staff strength	13	7	0.004

Source: Field Data (2020)

Before the introduction of the mandatory audit relief, the average income generated by audit firms in Kumasi Metropolis per annum was GH¢80,000. However, after the introduction the income generated by the firms reduced to GH¢47,000. Now, looking at the independent sample t-test, it is evident that the income difference is statistically significant (0.000). This suggests that mandatory audit relief has significantly reduced the income generation by the audit firms in the Kumasi Metropolis.

Before the introduction of the mandatory audit relief, the average client size of the audit firms in Kumasi Metropolis was88. However, after the introduction the average client size of the firms decreased to 81. More so, looking at the independent sample t-test, it is evident that the change in size is statistically insignificant (0.674). This suggests that though the introduction of the mandatory audit relief has reduced the client size of the audit firms in the Kumasi Metropolis, it is not statistically significant.

Before the introduction of the mandatory audit relief, the average staff strength of the audit firms in Kumasi Metropolis was 13. However, after the introduction the average staff strength of the firms reduced to 7. Now, looking at the independent sample t-test, it is evident that the difference is statistically significant (0.004). This suggests that mandatory audit relief has significantly reduced the staff strength of the audit firms in the Kumasi Metropolis.

4.5 Effect of Mandatory Audit Relief on Audit Practices of SMEs

This section of this study looks at research objective three: "to determine the effect of mandatory audit reliefs on audit practices of SMEs in the Kumasi Metropolis. The findings on audit practices of the SMEs both before and after introduction of mandatory audit relief are shown in Table 3.

Table 3: Effect of Mandatory Audit Relief on Audit Practices of SMEs

Key areas of audit	Increased	Decreased	Remained the Same
Compliance audit	20(25%)	34(42.5%)	26(32.5%)
Construction audit	22(27.5%)	32(40%)	26(32.5%)
Financial audit	23(28.75%)	29(36.25%)	28(35%)
Tax audit	26(32.5%)	24(30%)	30(37.5%)
Information System audit	27(33.75%)	25(31.25%)	28(35%)
Operational audit	28(35%)	16(20%)	36(45%)
Investigation audit	54(67.5%)	2(2.5%)	24(30%)

Source: Field Data (2020)

After the introduction of mandatory audit relief, compliance audit increased 20(25%), decreased 34(42.5%) and remained the same 26(32.5%). This means that after the introduction of mandatory audit relief, compliance audit decreased in the SMEs. From Table 3, it is noted that after the introduction of mandatory audit relief, construction audit increased 22(27.5%), decreased 32(40%) and remained the same 26(32.5%). This implies that after the introduction of mandatory audit relief, construction audit decreased in the SMEs.

After the introduction of mandatory audit relief, financial audit increased 23(28.75%), decreased 29(36.25%) and remained the same 28(35%). This implies that after the introduction of mandatory audit relief, financial audit decreased in the SMEs.

After the introduction of mandatory audit relief, tax audit increased 26(32.5%), decreased 24(30%) and remained the same 30(37.5%). This means that after the introduction of mandatory audit relief, tax audit remained the same in the SMEs. After the introduction of mandatory audit relief, information system audit increased 27(33.75%), decreased 25(31.25%) and remained the same 28(35%). This indicates that after the introduction of mandatory audit relief, information system unit remained the same in the SMEs. After the introduction of mandatory audit relief, operational audit increased 28(35%), decreased 16(20%) and remained the same 36(45%). This implies that after the introduction of mandatory audit relief, operational audit remained the same in the SMEs. After the introduction of mandatory audit relief, investigations audit increased 54(67.5%), decreased 2(2.5%) and remained the same 24(30%). This means that after the introduction of mandatory audit relief, investigations audit increased in the SMEs.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter of the project work summarizes the findings of the study, concludes the study based on the findings and suggests recommendation to audit practices among the SMEs in the Kumasi Metropolis.

5.2 Summary of Findings

The summary of major findings is grouped according to the research objectives as follows;

5.2.1 Relevance of Mandatory Audit Relief to Audit Practices of SMEs

This study found out that majority of auditors believe that mandatory audit relief was not relevant to SMEs. They believe that mandatory audit relief can lead to fraudulent financial statement which has severe consequences on the end users of the financial statements.

2.5.2 Effect of Mandatory Audit Relief on the Operations of Auditing Companies

1. This study observed that mandatory audit relief has significantly reduced the average annual incomes of audit firms from GH¢80,000 to GH¢47,000.
2. This study found out that mandatory audit relief has significantly reduced staff strength of audit firms in the Kumasi Metropolis from average of 13 to average 7.

3. This study however found out that mandatory audit relief has not significantly impacted on client size of the audit firms.

5.2.3 Effect of Mandatory Audit Relief on Audit Practices of SMEs

1. This study observed that introduction of mandatory audit relief has reduced compliance audit, construction audit and financial audit decreased in the SMEs.
2. The study realized that mandatory audit relief has no effect on tax audit remained the same in the SMEs, information system audit and operational in the SMEs.
3. Mandatory audit relief has increased investigations audit in the SMEs.

5.3 Conclusions

This study investigated the effect of mandatory audit relief on audit practices in the Kumasi Metropolis. Based on the findings of this study, the following conclusions are made;

Firstly, this study concludes mandatory audit relief is not relevant or good for SMEs in the Kumasi Metropolis. Investors, regulators and other parties rely on financial statements for effective decision making. However, due to mandatory audit relief, some SMEs will not undertake key audit services, just because they want to reduce cost. This many compromise the financial statements issued by such SMEs, thus having severe consequences on the end users of the financial statements.

Secondly, audit firms are established to make profit through the services they provide, mainly for the SMEs. However, due to the introduction of mandatory audit services, services provided by audit firms are reduced as most SMEs do not undertake audit services as before. This study concludes that mandatory audit relief significantly reduces the average annual incomes and staff strength of audit firms.

Thirdly, this study concludes that mandatory audit relief reduces compliance audit, construction audit and financial audit in the SMEs but does not affect tax audit information system audit and operational.

5.4 Recommendations

Based on the findings of this study, the following recommendations are made;

1. The SMEs should be encouraged to undertake all relevant audit services such as compliance audit, construction audit and financial audit.
2. Audit firms in the Kumasi Metropolis should diversify their operations since over reliance of audit service activities will make them have lower income due to the introduction of mandatory audit relief.

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APPENDIX

QUESTIONNAIRE

We wish to introduce ourselves as a student of the Christian Service University College. As part of our study, we are required to write a project work with the title **"Assessing the Effect of mandatory audit relief on the audit practice in the Kumasi Metropolis".** This study is completely confidential and your response to this questionnaire will be anonymous. Your identity shall not be disclosed at any time. You can advance for agreeing to participate in this study.

SECTION I: DEMOGRAPHIC INFORMATION

(1) *Please tick (√) the appropriate option(s) that best apply (ies) to you.*

(2) Sex: a). Male ( ) b). Female ( )

(3) Age of respondents: a) 30-34 ( ) b) 35-39 ( ) c) 40-44 ( ) d) 45-49 ( ) e) 50 and Above ( )

(4) Educational Level: a). HND ( ) b. Bachelor degree ( ) c) Master degree ( )

(5) Years of Service a) 6-10 years ( ) b) 11-15 years ( ) c) 16-20 years

SECTION II: RELEVANCE OF MANDATORY AUDIT RELIEF TO AUDIT PRACTICES OF SMES

(6) Is mandatory audit relief relevant for the SMEs in Kumasi Metropolis?

Yes ( ) No ( ) May be ( )

SECTION III: EFFECT OF MANDATORY AUDIT RELIEF ON THE OPERATIONS OF AUDITING COMPANIES

Provide information for the following key operations of audit firms

No.	Indicators	Before Mandatory Audit Relief	After Mandatory Audit Relied
7	Average Income generation per annum (GH¢)		
8	Average Client size		
9	Average Staff strength		

SECTION IV: EFFECT OF MANDATORY AUDIT RELIEF ON AUDIT PRACTICES OF SMES

This section of looked at the effect of mandatory audit reliefs on audit practices of SMEs in the Kumasi Metropolis. Indicate whether key areas of audit practices of the SMEs both before and after introduction of mandatory audit relief have increase, decrease or remained the same.

No.	Key areas of audit	Increased	Decreased	Remained the Same
10	Compliance audit			
11	Construction audit			
13	Financial audit			
14	Tax audit			
15	Information System audit			
16	Operational audit			
17	Investigation audit			