

DOI: <https://doi.org/10.38035/dijefa>Received: 2nd October 2023, Revised: 15th October 2023, Publish: 10th November 2023<https://creativecommons.org/licenses/by/4.0/>

The Moderating Effect of Audit Committee Meetings on The Relationship Between Internal Auditors' Attributes and Financial Sustainability

Joseph Kwasi Agyemang¹, Cameron Modisane²

¹Lecturer University of Eswatini, Eswatini, jagyemang@uniswa.sz

²Associate Professor University of South Africa, South Africa, modistc@unisa.ac.za

Corresponding Author: jagyemang@uniswa.sz ¹

Abstract: The study aimed to establish the moderating effect of audit committee meetings on the relationship between internal auditors' attributes and financial sustainability of municipalities. The study used census balanced panel data design and survey approach. The primary data was collected through 621 structured questionnaires distributed to chief audit executives and board of directors and audit committee chairpersons in 207 out of the 260 municipalities. The secondary data was collected from the Auditor General's report. The study used panel data comprising both cross section and time series. The study sampled observations for a five-year period (from 2016 to 2020) with 1035 observations for 207 municipalities. Data collected were analysed using partial least square-structural equation modelling. The findings indicated that audit committee meetings, internal auditor independence, internal audit size with the exception of internal auditor competence, have direct significant influence on financial sustainability. However, audit committee meetings failed to significantly moderate the relationship between internal auditors' attributes and financial sustainability.

Keyword: Audit committee meeting, internal auditor independence, internal audit size, internal auditor competence, financial sustainability

INTRODUCTION

Financial sustainability challenges in municipalities occur when there is a significant imbalance between their revenue generation and expenditure patterns (Saasi 2019; Huang & Ho, 2013). With increasing demands for services, municipalities often struggle to meet the expectations of their citizens while maintaining fiscal stability (Akudugu & Oppong-Peprah, 2013). This challenge is further aggravated by economic fluctuations, aging infrastructure, and insufficient funding sources. In this context, audit committees play a crucial role in ensuring financial accountability and transparency within municipalities (Thompson & Ansoglenang, 2018). Audit committees help identify inefficiencies and mismanagement of resources, enabling municipalities to streamline their expenditure and prioritize essential projects. Moreover, audit committees also assist in strengthening internal controls and risk management mechanisms to mitigate potential financial risks in the future (Agyemang,

2020). The oversight role of audit committees ensure that funds is allocated wisely, fostering long-term financial sustainability for municipalities as they navigate these complex challenges (Hazzaa et al., 2022; Gal & Akisik, 2020). Financial sustainability in municipalities is crucial for the effective functioning of local governments. It refers to the ability of a municipality to generate sufficient revenue and manage its expenses in order to provide essential public services and infrastructure. The audit committee plays a pivotal role in ensuring financial sustainability by enhancing transparency and accountability within the municipalities (Hazzaa et al., 2022; Gal & Akisik, 2020).

A financially sustainable municipality is able to continue providing essential services to their constituents without compromising the financial health of the community. The municipalities in Ghana are classified as metropolitan, municipal and district assemblies, which are popularly referred to municipalities in Ghana. A municipal financial sustainability is the ability of the municipalities to generate enough revenue internally to meet their expenses and to continue service deliveries to their local citizens (Arunachalam, Chen & Davey 2017; Dollery, Crase & Grant 2011). A municipality is financially sustainable when it is able to mobilise revenue internally in order to continue service deliveries (Saasi 2019; Huang and Ho 2013).

In 2019, out of the total revenue of USD 68,314,330 for 260 municipalities, internally generated funds contributed approximately 12% to the total revenue of all the 260 municipalities in Ghana (Republic of Ghana 2018). In the same year, the total internally generated funds and the total expenditure of all the 260 municipalities amounted to USD 8,197, 720 and USD 292, 978,661 respectively. The percentage of internally generated funds to total expenditure was thus 23.32% (Republic of Ghana, 2018). This implies that the total outstanding expenses of all the 260 municipalities in 2019 financial year amounted to USD 284,780,942 representing 76.68%. It could also be deduced that with the presence of internal auditors and the audit committees, the performance of municipalities to raise funds internally to make them financially sustainable is low. The inability of municipalities to raise adequate funds internally has made them to depend on the central government for a greater portion of their funding in order to embark on development projects and to meet continuous service deliveries (Republic of Ghana, 2018; Akudugu & Oppong-Pepurah, 2013).

In order to protect the public funds and to enhance the financial sustainability of municipalities in Ghana, the Public Financial Management Act 2016 (Act 936), Financial Administration Act, 2003 (Act 654), the Financial Administration Regulations, 2004 (Legislative Instrument 1802), and the Financial Memorandum for municipalities, 2004 are laws that govern the management of public funds (Fosu et al., 2013). These laws set out the basic budget and accountability structures in all public organisations including municipalities and the various sources of revenues and how the revenues so generated should be managed (Fosu et al 2013). The Public Financial Management Act 2016 (Act 936) Section 124 (3) mandates and provides the basis for municipalities to raise funds internally for their developmental projects (Republic of Ghana, 2016). The sources of internally generated funds for municipalities as enshrined in section 124 (3) of the Public Financial Management Act 2016 (Act 936) include licenses, fees and miscellaneous charges, taxes, investment income, and rates (Republic of Ghana, 2016: 64). Despite these laws, there have been many reports of the inability of municipalities to generate funds internally (Republic of Ghana, 2018). Saasi (2019) expressed that notwithstanding these laws, municipalities in Ghana have not been able to raise adequate funds internally to pay their operational expenses and to continue their service deliveries. This inefficiency has been attributed to the weaknesses in the internal governance mechanisms in the municipalities (Fosu et al., 2013).

Additionally, section 86 of the Public Financial Management Act of 2016 mandate all municipalities to set up audit committees (Republic of Ghana, 2016; Thompson & Ansoglenang, 2018). In the private sector, the main focus of audit committee since its inception is to improve governance practices and financial reporting processes (Bhasin 2016:2; IFAC 2014). However, public sector organisations like municipalities need the same attention of audit committees as in private sector to improve internal corporate governance in order to enhance financial sustainability (Agyemang & Bardai, 2022). The Internal Audit Agency Act, 2003, Act 658 is one of the acts passed to enhance the internal governance systems of public sector organisations including municipalities. Also, the Internal Audit Agency Act, 2003, Act 658 mandates all the public sector organisations including municipalities to establish an internal audit department. Eulerich and Eulerich (2020) referred to internal audit as an independent, objective assurance and consulting activity designed to add value and improve operations of an organisation. Public sector internal auditors provide assurance that municipalities perform to achieve value for money (IIA, 2019). Badara (2012) mentioned that the main objective of internal auditors of municipalities is to ensure that municipalities are able to increase internally generated funds and to make sure that such funds are safeguarded against fraud so that municipalities will be financially sustainable. According to Internal Audit Agency Act 2003 (Act 655) in Ghana, internal auditors of public sector organisations are responsible to examine the financial reports and inform the audit committee and as to whether the municipalities is financially sustainable or not (Ofori & Lu, 2018).

Furthermore, prior studies have indicated that audit committees can help public sector organisations such as municipalities to enhance internal audit functions, thereby improving financial sustainability (Hazzaa et al., 2022; Gal & Akisik, 2020). Also, the audit committee is to strengthen the internal auditors as a result of its oversight responsibilities for municipalities to be financially sustainable (Buallay, 2018). In response to the financial unsustainability of municipalities, a number of studies (Yeboah & Andrew, 2020; Arunachalam et al., 2017; Bolívar, Galera, Muñoz & Subirés, 2016; Greco, Sciulli & D'Onza, 2015) have recommended for further studies into the causes of financial unsustainability of municipalities. The empirical evidence shows that there have not been previous studies to date which have addressed how the audit committee meetings moderate the relationship between internal auditors' attributes and financial sustainability of municipalities. Hence, the study filled this gap by determining the moderating effect of audit committee meeting on the relationship between internal auditors' attributes and financial sustainability of municipalities in Ghana.

THEORETICAL FRAMEWORK

This study was grounded on both agency and resource dependency theories. In the agency theory perspective, Johl et al. (2013) view the internal audit as an internal monitoring mechanism and as one of the internal corporate governance structures of an organisation. The internal auditors play a dual role which enables them to keep an eye on the direction the organisation is going whilst another eye on every aspect of internal control which includes laws, rules and regulations, expectations, risk and opportunity. Ismael and Roberts (2018) argued that agency theory can help explain the existence and responsibilities of the internal auditors and can provide a useful framework for conducting other studies.

However, the effectiveness of the audit committee is dependent on its attributes (Agyemang, 2020). One of the essential attributes of audit committee is its frequency of meetings (Al-Matari & Al-Arussi, 2016). Regular audit committee meetings with internal auditors allow audit committee members to understand the auditing process and resolve disagreements between management, and internal as well as external auditors (Weber 2020;

Qeshtaa & Ali, 2020). Effective monitoring may increase when audit committee members meet regularly (Lisic et al., 2016).

From the resource dependency theory perspective, the audit committees advise internal auditors on issues concerning financial reporting quality, compliance of laws and financial performance (Alqadi, 2017). This advisory role play by audit committees helps to safeguard the interest of stakeholders (Abbadi, Hijazi & Al-Rahahleh, 2016; Velte, 2017; Alqadi, 2017). In this study, using the agency and resource dependency theories, it was expected that audit committee meetings can moderate the relationship between internal auditors' attributes and financial sustainability of municipalities.

On the basis of agency theory, this study expected that independent internal auditors (Ofosuhen et al., 2021; Kamal et al, 2021; Almutairi & Quttainah 2020; Almujaed & Alfrah, 2020), large size of internal audit (IIA, 2020; Eulerich & Eulerich 2020; Kamal et al 2021: 5; Almutairi & Quttainah 2020: 765; Almujaed & Alfrah, 2020), internal auditors with accounting and or auditing qualifications (Przybylska & Kańduła, 2019; Jones & Beattie, 2015; Ackermann, Marx & Fourie, 2016), and regular audit committee meetings (Omesí & Appah, 2022; Appah & Tebepah, 2020; Qeshtaa & Ali, 2020) can monitor and advice management to alleviate agency cost, which will result in improvement in financial sustainability. Also, on the basis of resource dependency theory, independent internal auditors (Hay & Cordery, 2018; Asiedu & Deffor, 2017; Pappa & Filos, 2019; Pfeffer & Salancik, 2015), large size of internal audit (Chan et al., 2018; Al-Bassam et al., 2018; Al-Rassas & Kamardin, 2015), competent internal auditors (IIA, 2020; Hazaea, 2020) and regular audit committee meetings (Al-Lawati et al., 2021; Gebrayel et al., 2018; Januarti et al., 2020) can bring to the boardroom diverse perspectives, qualifications, skills, ideas and knowledge for municipalities to make effective decisions to enhance financial sustainability.

EMPIRICAL REVIEW AND HYPOTHESES DEVELOPMENT

Internal auditor independence and financial sustainability

Prior studies have reported significant relationship with internal auditor independence and financial performance. Prior studies (Alaswad & Stanišić, 2016; Newman & Comfort, 2018; Dellai & Omri, 2016) uncovered that internal auditor independence has a significant relationship with financial performance. Prior studies have also reported insignificant relationship with internal auditor independence and financial performance. Prior studies (Güneş & Atılğan, 2016; Alzeban, 2015; Dauda, 2015; Hazaea et al., 2021; Elewa & El-Haddad, 2019) uncovered that internal auditor independence has an insignificant relationship with financial performance. Therefore, on the basis of the agency and resource dependency theories and the inconclusive findings in the literature, this study formulated and tested the following hypothesis

H1: There is a significant relationship between internal auditor independence and financial sustainability of municipalities in Ghana.

Internal audit size and financial sustainability

With regard to internal audit size, prior studies have reported no relationship between internal audit size and financial performance. Prior studies (Al-Matari & Mgamal, 2019; Alaswad & Stanišić, 2016) uncovered that internal audit size has no relationship with financial performance. Other prior studies have reported significant relationship with internal audit size and financial performance. Prior studies such as Alzeban (2020), Bengrich & El Ghadouia (2020), and Wadesango and Makerevi (2018) uncovered that internal audit size has a significant relationship with financial performance. Further prior studies have reported

insignificant relationship with internal audit size and financial performance. Further studies such as Hazaea et al. (2021), as well as Dianita (2015) uncovered that internal auditor independence has an insignificant relationship with financial performance. Therefore, on the basis of the agency and resource dependency theories and the inconclusive findings in the literature, this study formulated and tested the following hypothesis:

H2: There is a significant relationship between internal audit size and financial sustainability of municipalities in Ghana.

Internal auditor competence and financial sustainability

With regard to internal auditor competence, prior studies have reported no relationship between internal auditor competence and financial performance. Al-Matari and Mgmamal (2019) uncovered that internal auditor competence has no relationship with financial performance. Prior studies have also reported significant relationship with internal auditor competence and financial performance. Prior studies such as Hazaea et al. (2021), Alzeban (2020), Boubakary (2020), and Bengrich and El Ghadouia (2020) uncovered that internal auditor competence has a significant relationship with financial performance. Further prior studies have reported insignificant relationship with internal auditor competence and financial performance (Elewa & El-Haddad, 2019; Ogega et al., 2017; Muchiri & Jagongo, 2017). Therefore, on the basis of the agency and resource dependency theories and the inconclusive findings in the literature, this study formulated and tested the following hypothesis

H3: There is a significant relationship between internal auditor competence and financial sustainability of municipalities in Ghana.

Audit committee meetings and financial sustainability

With regard to audit committee meetings, prior studies have reported no relationship between audit committee meetings and financial performance. Prior studies such as Alzoubi (2019), Afza and Nazir (2014), Hamdan (2020) and Ngo and Le (2021) uncovered that audit committee meetings has no relationship with financial performance. Also, prior studies have reported significant relationship between audit committee meetings and financial performance. Prior studies such as Bansal and Sharma (2016), Ben-Barka and Legendre (2016), Darko et al. (2016) and Ashari and Krismiaji (2020) uncovered that audit committee meetings has a significant relationship with financial performance. Other prior studies also reported insignificant relationship between audit committee meetings and financial sustainability (Johl et al., 2015; Mohd Iskandar, 2009). Therefore, on the basis of the agency and resource dependency theories and the inconclusive findings in the literature, this study formulated and tested the following hypothesis:

H3a: There is a significant relationship between audit committee meetings and financial sustainability of municipalities in Ghana

MODERATING EFFECT OF AUDIT COMMITTEE MEETINGS

Audit committee meetings and internal audit independence

In order to maintain internal auditor independence, internal auditors must have the freedom to carry out their work without any undue influence from management. Thus, audit committee meetings play a crucial role in enhancing internal auditor independence. Audit committee meetings act as a safeguard by providing a forum for internal auditors to directly communicate and report their findings to an independent body within the municipality. In this case, audit committees can assess the effectiveness of internal controls and evaluate any

potential limitations or concerns raised by internal auditors. This transparency helps prevent any interference with the internal audit function, allowing internal auditors to work independently and effectively in identifying risks and improving processes. Audit committee meetings serve as a check-and-balance system that promotes internal audit independence within municipalities. Alzeban (2018) indicated that there is significant relationship between internal audit and audit committee meetings and financial performance. Alhossini et al. (2021) and Gebrayel et al. (2018) reported that the regular interactions between the audit committee and internal auditors can enhance the financial sustainability of municipalities. Abbott, Parker and Peters (2012: 94) reported that a regular meeting between audit committee and internal auditors enhances internal auditor independence. Alzeban (2020) reported no significant relationship between internal auditors and audit committee attributes. Therefore, on the basis of the agency and resource dependency theories, this study formulated and tested the following hypothesis:

H5: Audit committee meeting has a significant moderating effect on internal auditor independence and financial sustainability of municipalities in Ghana.

Audit committee meetings and internal audit size

Audit committee meetings play a crucial role in moderating the size of the internal audit function. During these meetings, the audit committee members review and assess the performance of the internal auditors and their work. Audit committees evaluate if internal auditors are providing value-added services or just going through the motions. If audit committees find inefficiencies or redundancies in the internal audit department, they might recommend streamlining or restructuring to optimize resources and ensure cost-effectiveness. Additionally, audit committee meetings also allow for open discussions about any concerns regarding the scope and coverage of audits, helping to strike a balance between thoroughness and practicality. Basically, audit committee meetings act as a reality check for the size of internal audit by keeping it in check and ensuring it meets organizational needs without going overboard. Alzeban (2018) indicated that there is significant relationship between internal audit and audit committee meetings and financial performance. Alhossini et al. (2021) and Gebrayel et al. (2018) reported that the regular interactions between the audit committee and internal auditors can enhance the financial sustainability of municipalities. Alzeban (2020) reported no significant relationship between internal auditors and audit committee attributes thereby enhancing financial sustainability. Therefore, on the basis of the agency and resource dependency theories, this study formulated and tested the following hypothesis:

H6: Audit committee meeting has a significant moderating effect on internal audit size and financial sustainability of municipalities in Ghana.

Audit committee meeting and internal audit competence

Audit committee meetings play a crucial role in moderating internal auditor competence. These meetings provide an opportunity for the audit committee members to evaluate the performance of the internal auditors and ensure they have the required expertise and knowledge. The audit committee reviews various aspects like internal auditors professional qualifications, training programs attended, and relevant certifications held. Audit committees also assess if the internal auditors are keeping up with industry standards and regulatory requirements. During these meetings, any concerns or gaps in their competence can be identified and addressed through constructive feedback or additional training initiatives. This ensures that internal auditors stay updated with evolving business practices and regulations, therefore enhancing their overall competency level. By having this

oversight function within audit committee meetings, municipalities can prioritize continual improvement in the skills of their internal auditors, ultimately boosting their effectiveness in assessing risks and providing reliable assurance to management thereby enhancing financial sustainability. Alzeban (2018) indicated that there is significant relationship between internal audit and audit committee meetings and financial performance. Alhossini et al. (2021) and Gebrayel et al. (2018) reported that the regular interactions between the audit committee and internal auditors can enhance the financial sustainability of municipalities. Alzeban (2020) reported no significant relationship between internal auditors and audit committee attributes thereby enhancing financial sustainability. Therefore, on the basis of the agency and resource dependency theories, this study formulated and tested the following hypothesis:

H7: Audit committee meeting has a significant moderating effect on internal auditor competence and financial sustainability of municipalities in Ghana.

METHOD

The population of the study comprised 260 municipalities. 207 municipalities were purposively selected for the study. The 207 municipalities selected were those who have their financial statements audited from 2016 to 2020 financial year. The study used both primary and secondary data. The primary data was collected through structured questionnaire distributed to chief audit executives and board of directors and audit committee chairpersons in 207 out of the 260 municipalities. The secondary data was collected from the Auditor General's report. The study used panel data comprising both cross section and time series. The study sampled observations for a five-year period (from 2016 to 2020) with 1035 observations for 207 municipalities. Data analysis was performed by using Statistical Package for Social Science (SPSS version 24) and Smart Partial Least square Structural Equation Modelling (SPLS-SEM). The study used SPLS-SEM 4 to establish the moderating role of audit committee on the relationship between internal governance mechanisms and financial sustainability of municipalities under the perspective of agency and resource dependency theories. All the latent (independent) and moderating variables were measured with five items. This implies each construct was measured with five (5) items. This is in accordance with similar study conducted by Agyemang and Yensu (2018), Agyemang (2017), Agyemang, Wingard and Acheampong (2019). The indicators were measured on a 5-point Likert scale ranging from 5 (strongly agree) to 1 (strongly disagree) with 'neutral' as a mid-point. As already discussed, financial sustainability is the ability of municipalities to raise adequate revenue internally in order to continue service deliveries.

The study relied on the financial self-sufficiency ratio, which is solely based on internally generated revenues to determine financial sustainability of municipalities. Financial self-sufficiency is measured using the financial self-sufficiency ratio, which is a ratio of adjusted revenues (after adjusting for interest), to adjusted expenses (Waweru, 2018; Kinde, 2012). If the financial self-sufficiency ratio is greater than one, then it means that the municipality is financially sustainable. However, if the financial self-sufficiency ratio is less than one, then it means that the municipality is not financially sustainable (Waweru, 2018; Kinde, 2012). The financial self-sufficiency ratio is a good measure of financial sustainability, because it indicates sustainability of the main internal revenue sources generated by municipalities and the ability to meet the expenses incurred (Waweru, 2018; Kinde, 2012).

In this study, the dependent variable was financial sustainability represented by an average of five ratios: net surplus margin ratio measured as the percentage of the internally generated revenue after municipalities have paid their operating expenses, net cash flow from operations to total debt ratio measured as the percentage total revenue set aside as operating

cash flow and the ability of an municipalities to pay their short-term financial obligations, rates coverage ratio measured as the percentage of rates revenue generated divided by total operating expenses, rates revenue to total revenue ratio measured as the percentage of internally generated revenue to total revenue, and assets turnover ratio measured as percentage of internally generated revenue to total assets. In this study, financial sustainability and financial performance are used interchangeably. The explanatory variable of the study are the internal auditors' attributes. These attributes are considered as an independent variables which are internal auditor independence (IAI) measured as the number of times internal auditors meet audit committees in a year; internal audit size (IAS) measured as the total number of internal auditors; and internal auditor competence (IAC) measured as the total number of internal auditors with accounting and or auditing qualifications. Audit committee meeting was used as a moderating variable measured as the number of meetings audit committees hold in a year. The model was developed on structural equation modelling partial least square based on the construct generated from the agency and resource dependency theories. .

RESULTS AND DISCUSSION

Assessment of measurement model

The research model was assessed using a two-step process: one was the assessment of the measurement model; and, two the assessment of the structural model. The main aim of model validation was to determine whether both the measurement and the structural models meet the quality criteria for empirical research. The following subsections discuss the guidelines used in this study to assess both measurement and the structural model. The study also assessed the moderation or interaction relationship proposed in the model.

Reliability and convergent validity

This section of the study assessed the reliability and validity of each of the constructs used in the study. In assessing the reliability of the constructs, Cronbach's alpha, composite reliability (CR) and average variance extracted (AVE) were used. In assessing validity of the constructs, convergent and discriminant measures were used. Table 7.7 below shows the result of Cronbach's alpha and convergent validity for the second iterative confirmatory factor analysis (CFA) model. Also, Table 7.10 shows the factor loadings, results of composite reliability, Cronbach's alpha, and AVE for all the constructs. Figure 7.3 shows the factor loadings and path coefficients that were obtained from SPLS-SEM.

Table 1: Loadings, construct reliability and convergent validity

Items	Outer Loadings	VIF	<i>t</i> -values	<i>p</i> -values	Cronbach Alpha (CA)	Composite Reliability (CR) (rho_c)	Average Variance Extracted (AVE)
ACM1	0.774	1.690	31.092	0.000	0.813	0.869	0.572
ACM2	0.804	1.756	39.501	0.000			
ACM3	0.802	1.825	32.771	0.000			
ACM4	0.616	1.446	14.444	0.000			
ACM5	0.769	1.878	28.569	0.000			
FS1	0.714	1.558	21.991	0.000	0.846	0.891	0.622
FS2	0.830	2.384	47.783	0.000			
FS3	0.863	2.684	82.639	0.000			

Items	Outer Loadings	VIF	<i>t</i> -values	<i>p</i> -values	Crombach Alpha (CA)	Composite Reliability (CR) (rho_c)	Average Variance Extracted (AVE)
FS4	0.741	1.684	29.956	0.000	0.853	0.895	0.630
FS5	0.784	1.707	33.033	0.000			
IAC1	0.784	1.775	28.837	0.000			
IAC2	0.776	1.981	30.098	0.000			
IAC3	0.859	2.421	54.528	0.000			
IAC4	0.771	1.785	34.324	0.000			
IAC5	0.776	1.785	30.546	0.000	0.879	0.912	0.675
IAI1	0.787	1.970	29.832	0.000			
IAI2	0.864	2.777	51.384	0.000			
IAI3	0.843	2.424	34.667	0.000			
IAI4	0.783	1.866	28.861	0.000			
IAI5	0.827	2.025	45.202	0.000			
IAS1	0.751	1.902	28.686	0.000	0.844	0.889	0.617
IAS2	0.811	2.360	34.889	0.000			
IAS3	0.836	2.188	51.053	0.000			
IAS4	0.731	1.678	22.489	0.000			
IAS5	0.792	1.787	32.517	0.000			

Measurement model

The measurement model of this study has forty five (45) latent constructs, as shown in Figure 7.1.

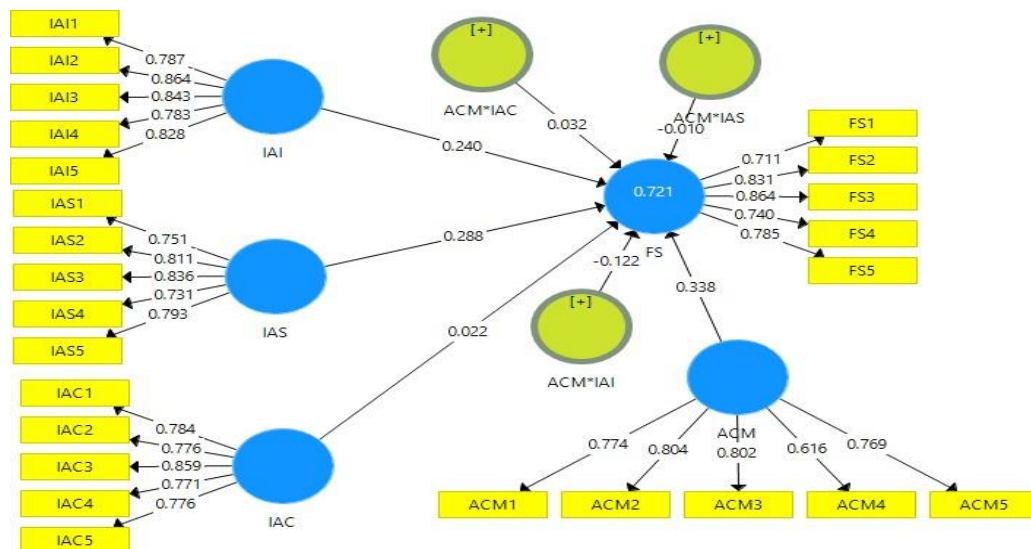


Figure 1: Measurement model indicating outer loadings

Assessment of factor loadings

The first step in PLS-SEM is the assessment of a measurement model. In assessing the measurement model, reliability of the measurement scale for each construct was tested first.

In assessing the reliability of each item, factor loadings of the indicators on each construct were checked. Factor loading refers to the correlation coefficient for each variable and its factor. It shows the variance explained by the variable on that particular factor. The rule of thumb of factor loadings according to Hair et al (2019) is 0.708, indicating higher factor loading which explains that the factor extracts are sufficient variance from that variable. As per Table 1, all loadings were greater than 0.708 which meets the criteria.

Assessment of internal consistency

To assess the internal consistency of individual reliability of each construct, composite reliability (CR) was calculated. In assessing the internal consistency of reliability, values ranging from 0.6 to 0.9 are considered best and value below 0.6 shows a lack of composite reliability (Hair et al 2019). As per Table 1 above, the results show that the CR value is greater than 0.7 for all constructs in all constructs, indicating its reliability. This means that the constructs show the high level of internal consistency in each construct. The results further demonstrate that issues relating to internal consistency were not present in this study. As per Table 1, the values of Cronbach alpha ranges from 0.813 to 0.879. This means that the results have met the required threshold of 0.70. Therefore, construct reliability was established.

Assessment of convergent validity

Convergent validity is defined as the degree of positive correlation of a measure (indicator) with other measures of the same construct (Hair et al 2017). The next step in the measurement model is to test the convergent validity that is reviewed by using the average variance extracted (AVE). Hair et al. (2017) suggested that to establish convergent validity there is the need to assess the outer factor loadings (indicator reliability) and the average variance extracted (AVE). The authors explained that for single-item constructs the AVE estimation is not meaningful. For multi-item reflective constructs AVE values above 0.5 are considered to be representative of sufficient convergent validity (Hair et al 2017; Fornell & Larcker 1981). Convergent validity takes two measures that are supposed to be measuring the same construct and shows that they are related. As per Table 1 above, the results shows that all AVEs for each construct were greater than 0.5 which had a values ranging from 0.572 to 0.875. All the reflective constructs of the study model met the conditions for AVE and also show factor loadings above the recommended level of 0.5 (see indicator reliability section).

Assessment of discriminant validity using cross loadings criterion

The next step was to assess the discriminant validity. Discriminant validity is assessed to check the extent to which one construct is dissimilar from the other constructs in the study model. In this study, Discriminant validity was assessed using three criteria namely cross-loadings, Fornell-Larcker criterion and Heterotrait-Monotrait ratio (HTMT) (Hair et al., 2017). With regard to using the cross-loading approach, it is expected that the outer loading of one indicator on the other construct should be higher than any of its cross-loadings on another construct (Hair et al., 2017). As per Table 2 below, the results show that all the items were correlated within their own theoretical construct and did not load well on the other constructs. This indicates that discriminant validity was not a problem in this study.

Table 2: Discriminant validity using cross loadings criterion

Items	ACM	FS	IAC	IAI	IAS
ACM1	0.773	0.627	0.499	0.480	0.502
ACM2	0.804	0.638	0.534	0.483	0.494
ACM3	0.802	0.576	0.500	0.472	0.486

Items	ACM	FS	IAC	IAI	IAS
ACM4	0.616	0.372	0.279	0.358	0.287
ACM5	0.769	0.464	0.391	0.341	0.396
FS1	0.428	0.714	0.451	0.530	0.509
FS2	0.619	0.830	0.573	0.554	0.592
FS3	0.626	0.863	0.551	0.574	0.601
FS4	0.504	0.741	0.482	0.563	0.568
FS5	0.661	0.784	0.546	0.573	0.601
IAC1	0.440	0.515	0.784	0.467	0.591
IAC2	0.459	0.478	0.776	0.437	0.543
IAC3	0.556	0.592	0.859	0.515	0.646
IAC4	0.416	0.518	0.771	0.535	0.610
IAC5	0.502	0.521	0.776	0.511	0.599
IAI1	0.397	0.556	0.477	0.787	0.526
IAI2	0.488	0.588	0.533	0.864	0.549
IAI3	0.453	0.579	0.505	0.843	0.568
IAI4	0.422	0.552	0.480	0.783	0.548
IAI5	0.580	0.628	0.554	0.827	0.610
IAS1	0.472	0.562	0.595	0.551	0.751
IAS2	0.453	0.545	0.611	0.570	0.811
IAS3	0.481	0.612	0.629	0.561	0.836
IAS4	0.392	0.533	0.534	0.480	0.731
IAS5	0.500	0.607	0.590	0.520	0.792

Assessment of discriminant validity using Fornell and Larker's criterion

The next step was to assess discriminant validity using Fornell-Larcker criterion. The Fornell-Larcker (1981) criterion is used to assess the degree of shared variance between the latent variables of the model. The results obtained using the Fornell-Larcker criterion show that the square root of each AVE construct value has a higher value than the construct correlation with other latent variables. This means that the value of the AVE construct is higher than the correlation construct with other latent variables. As per Table 3, the square root of the first-order reflective construct's AVE is shown on the diagonal, indicating that the discriminant validity is established.

Table 1: Discriminant validity using Fornell and Larker's criterion

Constructs	1	2	3	4	5
1. ACM	0.756				
2. FS	0.726	0.788			
3. IAC	0.600	0.663	0.794		
4. IAI	0.573	0.708	0.622	0.821	
5. IAS	0.587	0.730	0.754	0.683	0.785

Assessment of discriminant validity using Heterotrait-Monotrait (HTMT) criterion

The next step was to assess discriminant validity using the HTMT criterion. The use of the HTMT as a criterion involves comparing it to a predefined threshold. If the value of the HTMT is higher than this threshold, one can conclude that there is a lack of discriminant validity. Henseler, Ringle and Sarstedt (2015) suggested the threshold of HTMT to be 0.90 whilst Hair et al (2019) also suggested a value below 0.85. In this study, the value obtained is still below the cut-off value which shows good evidence of validity (see Table 4).

Table 4: Discriminant validity using HTMT criterion

	ACM	ACM*IAC	ACM*IAI	ACM*IAS	FS	IAC	IAI	IAS
ACM								
ACM*IAC	0.587							
ACM*IAI	0.549	0.904						
ACM*IAS	0.562	0.863	0.895					
FS	0.848	0.533	0.596	0.564				
IAC	0.697	0.451	0.537	0.443	0.777			
IAI	0.664	0.417	0.485	0.439	0.823	0.717		
IAS	0.690	0.350	0.451	0.431	0.863	0.888	0.793	

Assessment of structural model

The path model's theoretical or conceptual aspect is represented by the structural model. The structural model, also known as the inner model in PLS-SEM, contains the latent variables and their path relations. The next step after the assessment of the measurement model is to assess the structural model. In assessing the structural model, the used SRMR as a goodness-of-fit (GoF), coefficient of determination (R^2), blindfolding and predictive relevance (Q^2) and effect size (f^2) to test the explanatory power of the model on the relationship between the exogenous and endogenous before the assessment of the path coefficients of the constructs. Table 5 shows the values of SRMR, coefficient of determination (R^2), effect size (f^2) and the blindfolding and predictive relevance (Q^2). Table 6 also shows the results of PLS bootstrapping consisting of the Beta value, t-values, p-values, hypothesis results (whether accepted or rejected), whilst Figure 5 summarises the results of the structural model and PLS bootstrapping.

Table 5: Structural model's fit (SRMR), explanatory power and predictive relevance

Criterion	Estimate
SRMR	0.079
R^2	0.721
R^2 adjusted	0.717
Q^2	0.490

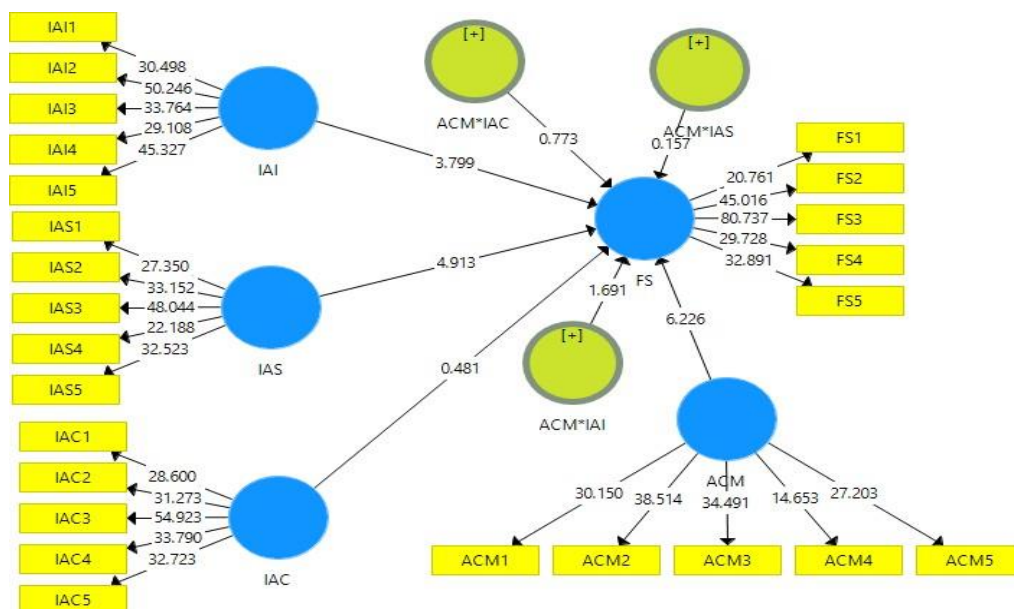
Table 6: Structural path coefficients results (direct and moderating)

Paths	<i>B</i>	<i>SE</i>	<i>t</i> -values	<i>p</i> -values	Confidence Interval (CI)		f^2
					2.5%	97.5%	

Paths	<i>B</i>	<i>SE</i>	<i>t</i> -values	<i>p</i> -values	Confidence Interval (CI)		<i>f</i> ²
					2.5%	97.5%	
<i>Direct effects</i>							
IAI -> FS	0.241	0.063	3.799	0.000**	0.117	0.373	0.097
IAS -> FS	0.290	0.059	4.913	0.000**	0.185	0.411	0.099
IAC -> FS	0.033	0.047	0.481	0.631**	-0.050	0.127	0.001
ACM -> FS	0.335	0.054	6.226	0.000***	0.234	0.452	0.193
<i>Moderating effects</i>							
ACM x IAI -> FS	-0.112	0.072	1.691	0.091	-0.254	0.028	0.018
ACM x IAS -> FS	-0.010	0.066	0.157	0.875	-0.139	0.114	0.000
ACM x IAC -> FS	0.027	0.042	0.773	0.440	-0.058	0.104	0.002

NB: **** = $p < 0.001$; *** = $p < 0.01$; ** = $p < 0.05$; **** = $p < 0.10$

Figure 1: Structural model indicating path results of direct and moderating effect



Assessment of the standardised root mean square residual (SRMR)

In order to assess the goodness of fit of the structural model, the study used SRMR goodness-of-fit (GoF) index. SRMR goodness of fit index was used to assess how sufficiently a partial least squares path model can explain different sets of data (Cho et al 2020:189). In general, when all the measurement models are reflective, the SRMR common factor model is the relevant model fit assessment criterion. Cho et al (2020:189) indicated that SRMR value less than 0.08, 0.09 or between zero and 1 is considered a good fit. Table 5 above shows a SRMR value of 0.079 ($< .08$) indicating that the model is a good fit.

Assessment of the coefficient of determination (R^2)

The next phase is to assess the predictive accuracy of the model by using value of the coefficient of determination (R^2). The value of R^2 is linked to the predictive power of the model and ranges from zero to one. Hair et al (2017) stated four standard levels of score for R^2 . The authors indicated that if R^2 is above 0.75 it is considered as substantial, if R^2 is above 0.50 it is considered as moderate, and if R^2 is above 0.25 it is considered as weak, and if R^2 is

below 0.25 is considered as unacceptable. As per Table 7.5 above, the score of R^2 for all the variables is substantial as recommended by Hair et al (2017). All the variables used in the study had R^2 score of 0.721 indicating that the model can predict up to 72.1% of the variables influencing financial sustainability. This shows that each of these constructs is influenced by exogenous constructs with substantial criteria.

Assessment of the predictive relevance (Q^2)

In assessing the predictive relevance, the study used Q^2 . In the SPLS-SEM, the study used blindfolding procedure to determine the Q^2 (predictive relevance). Hair et al (2017) provided a standard score for Q^2 . The authors indicated that if the $Q^2 > 0$, it means that the model has predictive relevance and if it is $Q^2 < 0$, it means the model lacks predictive relevance of the exogenous construct on the endogenous construct. Hair et al (2017) suggested that if the predictive relevance (Q^2) has values of 0.02, 0.15, and 0.35 respectively, it means that exogenous constructs have a small, medium, or large predictive relevance for an endogenous latent variable. To conclude the assessment of the structural model, the current study tested the predictive relevance model by using Q^2 . With reference to Table 5, the Q^2 value of all the endogenous constructs was 0.490 which is above zero and considered as large indicating that the model has acceptable predictive power regarding the endogenous latent variables as recommended by Hair et al (2017).

Assessment of the effect size (f^2)

The next stage is to assess the effect size of the model. Therefore, the study used f^2 to assess the effect size of the model. The value of f^2 is used to determine the relative effect of the exogenous constructs on the endogenous constructs. To assess the effect size, the study followed a guideline set by Cohen (1988). Cohen (1988) indicated that if the value of f^2 is 0.02 it represents small effect, 0.15 represents medium effect, and 0.35 represents large effect. As indicated in Table 6 above, the following f^2 values are linked to H1 (0.097=small effect), H2 (0.099=small effect), H3 (0.001=small effect), H4 (0.193=medium effect), H5 (0.018 = small effect), H6 (0.000 = weak effect), and H7 (0.001 = weak effect).

Assessment of the significance of the structural model relationships

After assessing the explanatory power of the structural model using SRMR, Q^2 , R^2 and f^2 , the next stage is to assess the significance between the exogenous constructs and the endogenous constructs. Table 6 above shows the value of the path coefficients has a standardized value between -1 and +1 (Values from 0.14 to 0.485). Estimated route coefficients approaching +1 indicate strong positive associations, according to Hair et al (2017), and the closer the number comes to zero, the weaker the relationships get. In the next step, in the direction of conducting the T-test, relationships are found to have T-values of more than or equal to 1.645. Therefore, all the hypotheses for direct effect except H3 are significant and therefore, accepted. All the hypotheses for moderating effect are insignificant and therefore, rejected. In this case, audit committee meetings do not moderate the relationship between internal auditors' attributes and financial sustainability of municipalities.

Hypothesis 1: *There is a significant relationship between internal auditor independence and financial sustainability.* From the Table 4, the result from SEM shows that there is a significant relationship between internal auditor independence and financial sustainability of municipalities. Empirically, this finding from SEM supports Newman and Comfort (2018: 1); Dellai and Omri (2016: 208); Alzoubi (2019); Alzeban (2020) as well as Sarhan et al (2020) studies which reported a significant relationship between the internal auditor independence and financial sustainability. Theoretically, this finding supports the agency theory's argument that if internal auditors meet audit committees, they are able to monitor and control

management from their opportunistic interest which leads to the improvement in financial sustainability of municipalities (Ofosuhene et al 2021; Chan et al., 2018; Kamal et al., 2021; Almutairi & Quttainah, 2020; Almujaed & Alfraih, 2020). This finding also supports the resource dependency theory which advocates that large size of internal audit enables the internal auditors with diverse knowledge (resources) to deploy their resources for the improvement of financial sustainability of municipalities (Hay & Cordery 2018; Asiedu & Deffor, 2017; Pappa & Filos, 2019).

Hypothesis 2: *There is a significant relationship between internal audit size and financial sustainability.* From the Table 4, the result from SEM shows that there is a significant relationship between internal audit size and financial sustainability of municipalities. Empirically, the finding from the SEM supports Alzeban (2020); Bengrich and El Ghadouia (2020); Wadesango and Makerevi (2018) as well as Newman and Comfort (2018) studies which reported a significant relationship between the internal audit size (the number of internal auditors) and financial sustainability of municipalities. From the theoretical perspective, this finding supports the agency theory's argument that large size of internal audit has the capacity to monitor and control management from their opportunistic interest which leads to the improvement in financial sustainability of municipalities (IIA, 2020; Eulerich & Eulerich, 2020; Kamal et al., 2021; Almutairi & Quttainah, 2020). This finding also supports the resource dependency theory which advocates that large size of internal audit enables the internal auditors with diverse knowledge (resources) to deploy their resources for the improvement of financial sustainability of municipalities (Chan et al., 2018; Al-Bassam et al., 2018; Al-Rassas & Kamardin, 2015).

Hypothesis 3: *There is a significant relationship between internal auditor competence and financial sustainability.* From the Table 4, the result from SEM shows that there is a significant relationship between internal auditor competence and financial sustainability of municipalities. Empirically, this finding from the SEM supports Hazaea et al. (2021); Alzeban (2020) studies, that reported a significant relationship between the internal auditor competence and financial sustainability. Theoretically, this finding supports the agency theory's argument that competent internal auditors have the capacity to monitor and control management from their opportunistic interest which leads to the improvement in financial sustainability (Przybylska & Kańduła 2019; Jones & Beattie, 2015; Ackermann et al. 2016). This finding also supports the resource dependency theory which advocates that competent internal auditors enables the internal auditors with diverse knowledge (resources) to deploy their resources for the improvement of financial sustainability of municipalities (IIA ,2020; Hazaea 2020).

Hypothesis 4: *There is a significant relationship between audit committee meeting and financial sustainability.* From the Table 4.5, the result from SEM shows that there is a significant relationship between audit committee meetings and financial sustainability of municipalities. Empirically, this finding from the SEM supports Ashari and Krismiaji (2020) as well as Elbadry et al. (2015) studies that reported a significant relationship between the audit committee meetings and financial sustainability. Theoretically, this finding supports the agency theory's argument that frequency of audit committee meetings help the audit committees to have the capacity to monitor and control management from their opportunistic interest which leads to the improvement in financial sustainability of municipalities (Omesí & Appah, 2022; Appah & Tebepah, 2020; Qeshtaa & Ali 2020). This finding also supports the resource dependency theory which advocates that frequency of audit committee meetings enables the audit committee members with diverse knowledge (resources) to deploy their

resources for the improvement of financial sustainability of municipalities (Al-Lawati et al. 2021; Januarti et al., 2020).

Hypothesis 5: *Audit committee meeting has a significant moderating effect on internal auditor independence and financial sustainability.* From Table 7.6, when the moderator (audit committee meetings) is included in the model, the result indicates that audit committee meeting does not strengthen the relationship between these exogenous and endogenous variables. Empirically, the finding from the SEM does not support studies of Alzoubi (2019); Alzeban (2015); Khelil and Ozkan (2016) who reported that audit committee meetings have a significant moderating effect on the association between internal auditor independence and financial sustainability. Theoretically, this finding does not support the views of both agency and resource dependency theories. From the perspective resource dependency theory, regular meetings between audit committees and the internal auditors enhances the internal auditors' ability to acquire resources and to bring to the boardroom diverse perspectives, skills, experience, networks, qualifications and knowledge for municipalities to make effective decisions to enhance financial sustainability (Mbelwa & Lenatusi, 2019; IIA, 2017). Moreover, from the perspective of agency theory, regular meetings between audit committees and internal auditors strengthens the monitoring and control capacity of the internal auditors, which in turn can improve financial sustainability of municipalities (John & Chukwumerije 2014; Panda & Leepsa, 2017:74).

Hypothesis 6: *Audit committee meeting has a significant moderating effect on internal audit size and financial sustainability.* From Table 7.6, when the moderator (audit committee meetings) is included in the model, the result indicates that audit committee meeting does not strengthen the relationship between these exogenous and endogenous variables. Empirically, the finding from the SEM model does not support studies of Iskak and Muslih (2022:440) as well as Herranza et al (2022:121) who reported a significant relationship between audit committee meetings and internal audit size which in turn, enhances financial sustainability. Theoretically, the finding does not support the views of both agency and resource dependency theories. From the perspective resource dependency theory, regular meetings between audit committees and the internal auditors enhances the internal auditors' ability to acquire resources and to bring to the boardroom diverse perspectives, skills, experience, networks, qualifications and knowledge for municipalities to make effective decisions to enhance financial sustainability (IIA, 2020;; Kamal et al., 2021; Almutairi & Quttainah 2020). Moreover, from the perspective of agency theory, regular meetings between audit committees and internal auditors strengthen the opinions and perspectives of the internal audit members which in turn, can improve financial sustainability of municipalities (Ismael & Roberts 2018; Jensen & Mechkling 1976).

Hypothesis 7: *Audit committee meeting has a significant moderating effect on internal auditor competence and financial sustainability.* From Table 7.6, when the moderator (audit committee meetings) is included in the model, the result indicates that audit committee meeting does not strengthen the relationship between these exogenous and endogenous variables. Empirically, the finding from the SEM does not support studies of Abdullfatah and Laith (2017) as well as Alzeban (2015) who reported that audit committee meetings strengthen the relationship between internal auditor competence and financial sustainability. Theoretically, this finding does not support the views of both agency and resource dependency theories. From the perspective resource dependency theory, regular meetings between audit committees and the internal auditors who have accounting and or auditing qualifications enhances the internal auditors' perspectives to link the municipality to the financial resources and to bring to the boardroom diverse perspectives, skills, experience,

networks, qualifications and knowledge for municipalities to make effective decisions to enhance financial sustainability (Erasmus & Coetzee, 2018; IIA, 2017; Marx & Fourie, 2016). Moreover, from the perspective of agency theory, regular meetings between audit committees and internal auditors strengthens the monitoring and control capacity of internal auditors with accounting and or auditing qualifications which in turn, can improve financial sustainability of municipalities (Al-Rassas & Kamardin 2015; Przybylska & Kańduła 2019; Coetzee & Erasmus, 2017).

CONCLUSION

The aim of the study was to establish the moderating effect of audit committee meetings on the relationship between internal auditors' attributes and financial sustainability of municipalities in Ghana. The findings indicate that audit committee meetings and all the internal auditors' attributes with the exception of internal auditor competence, have direct significant influence on financial sustainability. However, audit committee meetings failed to significantly moderate the relationship between internal auditors' attributes and financial sustainability. This study contributes to the knowledge of internal audit and financial sustainability by establishing the moderating effect of audit committee meeting on the relationship between internal audit attributes and financial sustainability, using a sample of 1035 firm-year observations between 2016 and 2020. Theoretically, this study contributes through its justification of the underpinning theory (agency and resource dependency theories) in providing insights into internal audit attributes and financial sustainability globally. Practically, this study will benefit policy-makers and public sector organisations to clarify the status and limitations of the internal audit and audit committee structures. The findings from this study may be useful to policy-makers to set regulations and policies that will ensure that all municipalities and other public organisations make effective use of audit committees to strengthen financial sustainability. This will lead to improved financial sustainability and continues service delivery to the general public. However, the study was limited to the municipalities in Ghana. This limited the generalizability of the findings to other countries. Therefore, the study recommends that future studies can consider comparative studies between other countries using other corporate governance variables such as board of directors, audit committees and external audit either in the same sector or other sectors.

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