



Addis Ababa University

Faculty of Business and Economics

Department of Accounting and Finance

Auditors Perception of Audit Quality in Ethiopia

A thesis submitted to the Department of Accounting and finance Addis Ababa University in partial fulfillment of the requirements for the Degree of Master of Science in Accounting and Finance.

By

Bayou Tsegaw Feleke

Advisor: ABEBAW KASSIE (PhD)

February , 2017

**Addis Ababa,
Ethiopia**

Addis Ababa University

Faculty of Business and Economics

Department of Accounting and Finance

Auditors Perception of Audit Quality in Ethiopia

By: Bayou Tsegaw Feleke

Advised by:

Name -----

Signature-----

Date -----

Examined by:

Name

Signature

Date

1. -----

2. -----

3. -----

February 2017 Addis Ababa

Declaration

I the undersigned, hereby declare that this research project work entitled “Auditors Perception of Audit Quality in Ethiopia” is my original work and has not been presented for a degree in any other university or institution and that all sources of materials used for the study has been dully acknowledged.

Bayou Tsegaw Feleke _____

Signature

Date

TABLE OF CONTENTS

Table of Contents.....	v
List of Tables.....	vi
List of Figures.....	vii
Acronyms and Abbreviations	viii
Abstract.....	ix
Acknowledgement	x
1. Introduction	1
<i>1.1. Background of the Study</i>	<i>2</i>
<i>1.2. Statement of the problem</i>	<i>4</i>
<i>1.3. Objectives</i>	<i>5</i>
<i>1.3.1 General objective.....</i>	<i>5</i>
<i>1.4. Hypothesis.....</i>	<i>5</i>
<i>1.5. Scope of the study</i>	<i>10</i>
<i>1.6. Limitation of the study.....</i>	<i>11</i>
<i>1.7. Significance of the study</i>	<i>11</i>
<i>1.8. Organization of the study.....</i>	<i>11</i>
2. Literature review.....	12
<i>2.1. Introduction.....</i>	<i>12</i>
<i>2.2. Type of audit</i>	<i>13</i>
<i>2.3. Users of external audit report.....</i>	<i>15</i>
<i>2.4. Audit Quality.....</i>	<i>17</i>
<i>2.5. Review of empirical studies on determinants of audit quality.....</i>	<i>17</i>
<i>2.6. Conceptual framework.....</i>	<i>24</i>
<i>2.7. Conclusion</i>	<i>27</i>
3. Research design and methodology.....	28

3.1. <i>Introduction</i>	28
3.2. <i>Research design</i>	28
3.3. <i>Research population</i>	28
3.4. <i>Sample size and selection</i>	29
3.5. <i>Data type, sources and instruments</i>	30
3.6. <i>Data analysis</i>	32
4. <i>Data presentation and analysis</i>	35
4.1. <i>Results</i>	35
4.1.1 <i>Survey Results</i>	35
4.1.2 <i>Profile of Respondents of the survey</i>	36
4.2. <i>Assessment of audit quality in Ethiopia</i>	39
4.2.1 <i>Audit Size and Audit Quality</i>	39
4.2.2 <i>Audit Competence and Audit Quality</i>	43
4.2.3 <i>Industry Specialization and Audit Quality</i>	45
4.2.4 <i>Audit Tenure and Audit Quality</i>	47
4.2.5 <i>Audit Fee and Audit Quality</i>	50
4.2.6 <i>Provision of Non Audit Service (NAS) and Audit Quality</i>	52
4.2.7 <i>Audit Reputation and Audit Quality</i>	55
4.2.8 <i>Audit Time and Audit Quality</i>	58
5. <i>Conclusions, recommendations and future research directions</i>	60
5.1. <i>Conclusion</i>	60
5.2. <i>Recommendation</i>	62
5.3. <i>Research directions</i>	63
References	64
Appendix	70

List of Tables

Table 4.1 Respondents level of Education.....	36
Table 4.2 Respondents Professional Qualifications.....	37
Table 4.3 Respondents Current Position.....	38
Table 4.4 Respondents Experience as an External Auditor.....	38
Table 4.5 Audit Size and Audit Quality.....	40
Table 4.6 Audit Competence and Audit Quality.....	43
Table 4.7 Industry Specialization and Audit Quality.....	45
Table 4.8 Audit Tenure and Audit Quality.....	48
Table 4.9 Audit Fee and Audit Quality.....	50
Table 4.10 Provision of Non Audit Service (NAS) and Audit Quality.....	53
Table 4.11 Audit Reputation and Audit Quality.....	56
Table 4.12 Audit Time and Audit Quality.....	58

List of Figures

Figure 4.1 Audit Size and Audit Quality.....	42
Figure 4.2 Audit Competence and Audit Quality.....	44
Figure 4.3 Industry Specialization and Audit Quality.....	47
Figure 4.4 Audit Tenure and Audit Quality.....	49
Figure 4.5 Audit Fee and Audit Quality.....	52
Figure 4.6 Provision of Non Audit Service (NAS) and Audit Quality.....	55
Figure 4.7 Audit Reputation and Audit Quality.....	57
Figure 4.8 Audit Time and Audit Quality.....	59

Acronyms and Abbreviations

AAU – Addis Ababa University

IFRS – International Financial Reporting Standards

IAASB – International Auditing and Assurance Standards Board

IFAC – International Federation of Accountants

ISA-International Standards on Auditing

GAAP-Generally Accepted Accounting Principles

ACCA-Associations of Chartered Certified Accountants

NAS-Non Audit Services

AABE-the Accounting and Auditing Board of Ethiopia

EPAAA-Ethiopian Professional Association of Accountants and Auditors

OFAG-Office of the Federal Auditor General

Abstract

This thesis examines the perception of auditors on audit quality in Ethiopia. The thesis uses survey as a strategy of inquiry. The survey covers 88 external auditors who have senior auditor and above positions. The response rate is 60%. Results from the analysis indicate that respondents agree on positive relationship of audit firm size, audit competence, industry specialization and auditor's reputation with audit quality. Tight audit time has a negative relationship with audit quality. Respondents are neutral on the relationship of audit fees, audit tenure and provisions of non-audit services with audit quality.

Key words: audit firm size, audit competence, industry Specialization, audit tenure, audit fee provision of non-audit services (NAS), audit reputation, audit time and audit quality

Acknowledgements

First of all, I am heartily thankful to my advisor, Dr. Abebaw Kassie, whose encouragement, guidance, and support from the initial to the final level enabled me to develop an understanding of the subject and complete the thesis. Secondly, I would like to extend grateful acknowledgement to participants of the study. Lastly I am also indebted for my family, friends and to all those who helped me for the accomplishment of my study.

CHAPTER ONE

Introduction

The word “audit” comes from the Latin word “audire”, meaning “to hear” (Teck-Heangand Ali, 2008). Auditing in the form of ancient checking activities was found in the ancient civilizations of China, Egypt and Greece. The ancient checking activities found in Greece (around 350 B.C.) appear to be closest to the present-day auditing; in England in the 12th century (Teck-Heangand Ali, 2008). The formal practice of auditing has been in existence for a relatively short period. The industrial revolution and the resulting explosion in growth of business activity led to widespread adoption of auditing methods (Byrnes et al, 2012). In Ethiopia the history of auditing goes back to the 1930s (Beyashe, 2008).

In order to harmonize the auditing activities of the world the International Auditing and Assurance Standards Board (IAASB), under the International Federation of Accountants (IFAC) sets highly-quality auditing and assurance standards to enhance the consistency of auditing practice throughout the world thereby strengthening public confidence in the global auditing and assurance profession.

The International Standard on Auditing (ISA) no 200 says the purpose of audit is to enhance the degree of confidence of intended users in the financial statements. There is an agency relationship between owners and management. Managers who deal with the day to day activity are agents of owners who are not involved in the activities of a company. Agency theory based perspective states that audited financial statements are a monitoring mechanism to provide users assurance of financial information (Memiş&Çetenak,2012). There are also other users of the audited financial statements apart from the owners; government, prospective investors, creditors, customers, banks. All these users rely on the audited financial statements.

Audit quality is a complex subject and there is no definition or analysis of it that has achieved universal recognition. As per IAASB (International Auditing and Assurance Standards Board) view audit quality is likely to be achieved when auditor’s opinion on the financial statements can be relied upon as it was based on sufficient appropriate audit evidence obtained by an engagement team that

- Exhibited appropriate values, ethics and attitudes;
- Was sufficiently knowledgeable and experienced and had sufficient time allocated to perform the audit work;
- Applied a rigorous audit process and quality control procedures;
- Provided valuable and timely reports; and
- Interacted appropriately with a variety of different stakeholders (IAASB's framework for audit quality)

Audit quality may be affected by several factors which can be simply divided into the auditor specifications and auditing process attributes (Hosseinniakaniet al, 2013). According to extant literatures audit quality is affected by audit firm size, audit firm tenures, non-audit fee, audit fee, audit reputation, audit expertise, industry expertise, provision of non-audit services, audit budget time, auditors independent and auditors' liability.

The remaining discussions in this chapter are organized to have eight sections: section 1.1 presents the background to the study; section 1.2 shows the statement of the problems; section 1.3 presents the general objective; section 1.4 presents the hypotheses; section 1.5 presents scope of the study; section 1.6 presents the limitation of the study; section 1.7 the significance of the study; and section 1.8 presents the organization of the entire study.

1.1. Background of the Study

In Ethiopia auditing service is currently given by three institutions

The Office of the Federal Auditor General (OFAG) which is the first audit institute of the country (Beyashe, 2008). The proclamation to establish the Auditor General's Office has been revised continuously with the change in government the last one being the 1997 proclamation. (Proclamation No. 68/1997, A proclamation to establish the Office of the Federal Auditor General) As per proclamation no 68/97 the objective of OFAG is to strengthen the audit system and to undertake financial and performance audit of the Federal and Regional governments. So

the office has no responsibility in auditing for-profit organizations of both government and privately owned companies.

Audit Services Corporation (ASC) a totally government-owned corporation, audits state-owned enterprises. It was established by Proclamation 126/1977 during the previous socialist regime. The objectives of the corporation were to render audit services and management consultancy for organizations of which the government is the owner or majority shareholder. The ASC-audited enterprises include state-owned banks. ASC operates without government influence (World Bank 2007 Report on the Observance of Standards and Codes (ROSC)), and

Private owned audit firms. Currently after the privatization of government owned companies and the post 1991 free market economic system the majority of the business of the country is done by companies that are not owned by government. Almost all of these companies are audited by privately owned audit firms. They also audit many of the charity organizations that are operating in the country. The private audit firms were previously being registered by Office of the Federal Auditor General (OFAG). In December 2014, under Proclamation Number 847/2014 and Council of Ministers Regulation 332/2014, the Accounting and Auditing Board of Ethiopia (AABE) is established and it is this board that has the authority to register and license public auditors. The board also has other responsibilities including issuing standards and directives relating to financial reporting and auditing; oversee professional accounting bodies, quality assurance services reviews of public auditors, audit firms and persons associated with them. As of May 2016 there are 88 audit firms authorized by AABE including the government owned firm i.e. Audit Services Corporation. The private audit firms are either sole practitioners or formed under partnership.

The purpose of this study is to see auditor's perception of audit quality in Ethiopia as perceived by auditors of the country.

This study examines Auditor's Perception of Audit Quality in Ethiopia. The main purpose of this chapter is to provide general information about the thesis. The next section of this chapter is

organized as follows. The first section presented the general background information of the study, the second section sets out the statement of the problem, the third section puts the objectives of the study, research hypotheses are formulated in the fourth section, the fifth section outlines the scope of the study, limitation is presented in the sixth section, the seventh section outlines significance of the study and organizations of the chapter is presented at the end section of this chapter.

1.2. Statement of the Problem

The perception of the users of financial statements on independent auditors report is declining after the auditor's involvement in major scandals. The notable scandals in US include big companies like Enron and WorldCom. The Enron scandal results the dissolution of itself and the auditors of Enron i.e. Arthur Anderson, one of the Big Five Auditors worldwide. Other major scandals include Global Crossing and Cendant Sunbeam (US); BCCI, Independent Insurance, Equitable Life, Maxwell (UK) Metallgesellschaft (Germany), and Lever Brothers, African Petroleum, Cadbury, Savanna Bank, Wema and Intercontinental Bank (Nigeria);(James and Izien, 2014)

In Ethiopia there are no reported scandals that involve auditors but with the increasing number of private audit firms and the increasing number of business companies many studies should be conducted on audit quality to tackle or minimize similar scandals. It's not questionable the audit practice should be performed at highest quality. Auditees whether they are government, not-for-profit or for profit organizations all need a high standard quality audit. All of them have different stakeholders government, management, taxpayers, donors, investors and a high-quality audit is essential for systematic and objective assessment of the auditees financial statement. This will enable the users of the financial statements to rely on the accounts of the auditees.

The audit profession in Ethiopia has the specific features. First the number of professional accountants is very low compared to the size of the economy. Second there is no strong professional body. Third the Ethiopian Professional Association of Accountants and Auditors (EPAAA) has no legal backing and not member of the International Federation of Accountants (IFAC). Fourth the country has no quality assurance programs for Auditors. Fifth there is no legal requirement exists for auditors to have professional indemnity insurance. Sixth the big-four

international audit firm networks are not present in the country. Seventh there are no accountings and auditing standards set in Ethiopia and lastly every auditor determines accounting standards for their clients (World Bank, 2007)

The above features that have a negative effect on auditor's competence, auditors liability, and inconsistency auditors approach specially in the standards they are following create concerns on audit quality in Ethiopia.

There are many researches done on audit quality in other countries. But there are only limited studies done on audit quality in Ethiopia. The few studies are also industry specific; on commercial banks (Kitata,2016) and (Afesha, 2014) on Manufacturing companies (Leilina, 2015) and on a specific variable; on audit tenure (Gelaneh, 2011).

As mentioned above the few studies are either industry specific i.e. external audit on commercial banks and manufacturing companies or by using single independent variable i.e. audit tenure. This study tries feeling the gap by not focusing on the external audit of one industry or by not focusing on using the impact of only one variable but rather tries to see the perceptions on audit quality determinants from members of auditors in Ethiopia on their audit work in any industry.

1.3. Objectives

1.3.1 General Objective

The objective of this research is to assess the perception of auditors on audit quality in Ethiopia.

1.4. Hypothesis

In this section, the hypotheses that will be tested in this study are presented. The hypotheses are constructed on the basis of existing literature, the discussion are as follows and the hypothesis are followed after the discussion.

- **Audit size:** - DeAngelo (1981) measured audit size by number of clients an audit firm has. Large audit firms will have the resource which is believed to increase the competence of the firm and the staff. Clients usually are more interested in demanding for large audit firms with higher reputation compared with small audit firms. Some factors such as professional competence, auditor's qualification and supporting technical information undoubtedly can be found in large audit firm's system(Seyed et al, 2014). Large auditors with higher credible clients can suffer noticeable losses compared with small auditors if they issue inaccurate reports. Therefore, the large audit firms have more incentive to issue a reliable audit report with the purpose of maintaining their reputation (DeAngelo, 1981).

Many of the empirical literatures show that audit size and audit quality are highly related. (Sawan and Alsaqqa, 2013); (Adeyemiand Fagbemi,2010);(Enofeet al, 2013); (Deis, Jr. and Giroux, 1992); (Kilgore et al, 2014); (Salehiand Kangarlouei, 2010); and (DeAngelo, 1981) One study shows that it has no significance on audit quality (Al-Khaddash et al, 2013). While the study in Nigeria shows that it has a negative effect on audit quality (James and Izien, 2014)

➤ **Hypothesis 1:** Firm size has a positive effect on audit quality

- **Audit Competence:** Sound knowledge and competence; commands a premium. Similarly there is a demand for competence in auditing and accountancy, including adequate training and experience in all facets of an auditor's work. Further, nowadays the profession has also placed increasing emphasize on auditing and accounting professional education programs for auditors to ensure that they keep abreast of the latest ideas and techniques in auditing and accounting. As per many literatures audit competence is plays a positive role in audit quality.

- From the empirical literatures audit competence positively related with audit quality (Mansouri et al, 2009) and (Halim et al, 2014).

➤ **Hypothesis 2:** Audit Competence has a positive effect on audit quality

- Industry specialization: - According to literature, it is clear that the expertise of the auditor plays an important role in improving audit quality. Demanding auditor specialization in an industry leads to a higher level of technical competence and technical information (Hosseinniakani et al, 2014). Industry expertise advantages together with general audit knowledge can enhance the audit technical ability and audit reputation and so increase audit quality as well as leading to a higher level of audit fees (Hosseinniakani et al, 2014).

From the empirical literatures (Mansouri et al, 2009);(Kilgore et al, 2014); (Bafqi et al, 2013) supports that auditor's industry specialization/ expertise has a positive effect on audit quality.

➤ **Hypothesis 3:** Audit Competence has a positive effect on audit quality

- Audit tenure: - Audit tenure is the number of years an audit firm audits a client. Audit tenure has been investigated as short and large audit tenures. Shorter audit tenure means the auditors have less client knowledge which results low audit quality. Long audit tenure on the other hand decreases professional care. Long audit tenure increase client knowledge but the auditor's independence may be compromised.

Some countries has a law to limit the number of years an audit firm can audit a client. Bangladesh has a mandatory audit firm rotation that an audit firm cannot audit a listed company for more than three years. China has a mandatory audit firm rotation that an audit firm should not audit a government state owned companies for more than five years. India has a mandatory audit firm rotation so that an audit firm cannot audit banks, insurance companies and government companies for more than four years. In Singapore every five years the auditors of a local bank should be

replaced. Thailand and South Korea will replace auditors of listed companies every five and six years respectively.

The Sarbanes-Oxley Act OF 2002 that comes in to effect in US after the Enron, WorldCom scandals limits the requires that both the lead audit partner and the audit review partner for publicly held companies be rotated at least every five years.

There is no law in Ethiopia that limits audit tenure. From the empirical literatures audit tenure has a negative effect on audit quality (James and Izien, 2014); (Adeyemiand Fagbemi,2010); (Deis, Jr. and Giroux, 1992). In Malaysia longer audit tenure has a negative effect on audit quality after the mandatory rotation law comes to effect in 2002 (Siregaret al, 2012). No effect of long audit tenure on audit quality (Rahminaand Agoes, 2014); (Bafqi et al, 2013). Longer audit tenure has positive significance on audit quality (Shafie et al, 2009)

➤ **Hypothesis 4:** Audit quality declines as Audit tenure increases

- Audit fee: - Large size firms usually are associated with greater audit fees. It's believed that firms that have a qualified staff charge a higher audit fee. So mostly large audit fees are positively related with audit quality.

From the empirical studies high audit fee is positively related with audit quality (DeAngelo. 1981);(Arquimedes and Antonio, 2015);(Husam Al-Khaddash et al, 2013); and (Listya and Sukrisno; 2014)

➤ **Hypothesis 5:** Audit Fee has a positive effect on audit quality

- Non audit services: - Some audit firms give non-audit services to their clients. It's argued that the more an audit firm is involved in non-audit service audit quality will be compromised. Historically, public accounting firms earned a large part of their profits by providing consulting services to the companies that they audited. This

provided the appearance of a lack of independence because a client that was dissatisfied with an auditor's stance on an accounting issue might threaten to stop using the auditor as a consultant so for the above reasons (the Sarbanes-Oxley Act (US) of 2002 prohibits a public accounting firm from providing a wide variety of non-auditing services to an audit client)

From the empirical studies provision of non-audit service would likely have a significant effect on the audit quality in Nigeria (Seyed et al, 2014)

➤ **Hypothesis 6:** High levels of non-audit services can decrease audit quality

- Audit reputation: -large audit firms have more reputation than smaller ones. Auditors that have audit reputation are believed to give an independent opinion.

Audit reputation has a positive effect on audit quality (Seyed et al, 2014); and (Husam Al-Khaddash et al, 2013)

➤ **Hypothesis 7:** Audit Reputation has a positive effect on audit quality

- Audit time: - audit time budget is firm budget time because of limited resources allocated to implement auditing. Audit time budget is measured with two reflective indicators, namely (a) time budget, where relate budget time budget to control the amount of time for an overall audit work; and (b) time limit, where - relate time limit to budget deadline to complete any audit work at date/time specified(Halim et al, 2014)

- The smaller audit time budget the greater effect on auditors' competence and auditors independence (Halim et al, 2014)

➤ **Hypothesis 8:** Tight audit time has a negative effect on audit quality

1.5. Scope of the Study

It is important to define the boundaries of the study. It may be cumbersome to incorporate the views of both clients and auditors. Hence the study is focused on views of auditors. The term auditors in all of this study refer external auditors only. The scopes of function for external and internal auditors are different in nature. Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations (the Institute of Internal Auditors (IIA)). The objective of external auditing is to express an opinion whether financial statements give a true and fair view (or present fairly in all material respects) and whether financial statements are prepared in all material respects in accordance with an applicable financial reporting framework (ISA 200) Therefore the study does not consider views of internal auditors its focus is only on external auditors.

The study further focuses on those external auditors who have a senior and above roles in external audit i.e. Senior Auditors, Audit Managers, Senior Audit Managers and Principals or partners of external audit firms in Ethiopia. The researcher believes Audit Assistants and Audit Juniors may not have much experience to have an expert opinion on determinant factors on audit quality in Ethiopia. The study was done during 2016 from May to December. The main issues addressed were the relationships of audit firm size, audit competence, industry specialization, auditor's reputation, provisions of non-audit services, audit time, audit fees and audit tenure on audit quality in Ethiopia.

1.6. Limitation of the Study

This study is not without limitations. Some of the limitations are:

- The problem of knowing the total number of auditors under each audit firms because of involuntary response from the audit firms.

- Lack of sufficient studies on the study title in the country. This results in not having sufficient reference for the study about audit quality Ethiopia
- The participants are selected clearly on the convenience sampling method; this limits the research finding to conclude to the population, all auditors who have a senior and above role in external audit industry of Ethiopia, but to the selected samples only.

1.7. Significance of the Study

The importance of this study is mainly for the audit industry in the country. The following significance can be attained after completion of this research.

- It gives information to auditors about the effect of the variables on audit quality so that they use this information in enhancing audit quality
- It makes auditors to focus on the dominant variables that affect audit quality hence enhance audit quality
- It help users of external audit to know about factors that have a positive and negative effect on audit quality
- The study adds knowledge on the field of audit quality in Ethiopia
- It may motivate for further studies on audit quality in Ethiopia
- It may serve as reference for future researches on audit quality

1.8. Organization of the Study

The present study is organized in five chapters. The first chapter states the general introduction of the study. The second chapter presents review of related literature. The third chapter outlines the research methodology and design. The fourth chapter contains data presentation and analysis. The last chapter deals with conclusions, recommendations, Limitations and future research directions.

CHAPTER TWO

Literature Review

The previous chapter presents the history of audit, its purpose and audit practice in Ethiopia. It also states the objective of the paper, which is to assess audit quality in Ethiopia. This chapter presents the theoretical literature including definition of audit; type of audit, users of audit and empirical evidence on determinants of audit quality.

2.1. Introduction

An audit is an official examination of the accounts (or accounting systems) of an entity (by an auditor). The main objective of an audit is to enable an auditor to convey an opinion as to whether or not the financial statements of an entity are prepared according to an applicable financial framework. The applicable financial reporting framework is decided by legislation within each individual country and accounting standards such as IFRS (International Financial Reporting Standards) (ISA, 200).

An audit of a company's accounts is needed because in companies, the owners of the business are often not the same persons as the individuals who manage and control that business. The shareholders own the company but the company will be controlled and managed by directors. The directors have a stewardship role. They look after the assets of the company and manage them on behalf of the shareholders.

The relationship between the shareholders of a company and the board of directors is also an application of the general legal principle of agency. The concept of agency applies whenever one person or group of individuals acts as an agent on behalf of someone else (the principal). The agent has a legal duty to act in the best interests of the principal, and should be accountable to the principal for everything that he does as an agent. The directors in order to show their accountability to the shareholders they will prepare annual financial statements. Over time, the annual audit was developed as a way of adding credibility to the financial statements produced by management.

2.2. Type of audit

Audit type can be divided by the obligation that companies have on audited financial statements in to (Advanced Audit and Assurance, Strathmore University Press, 2009)

Statutory audit: - Most countries impose a statutory requirement for an annual (external) audit to be carried out on the financial statements of most companies. (Advanced Audit and Assurance, Strathmore University Press, 2009) In our country share companies are obliged to have their annual financial statements audited by independent auditors (Commercial Code of Ethiopia, 1960). Banks also requires audited financial statements to provide loan for their clients.

Non-statutory audit: - Non-statutory audits are performed by independent auditors because the owners, proprietors, members, trustees, professional and governing bodies or other interested parties desire them, not because the law requires them (Advanced Audit and Assurance, Strathmore University Press, 2009)

Audit engagement and services can also be classified as follows

External Audit: -External audit, also known as financial audit and statutory audit, involves the examination of the truth and fairness of the financial statements of an entity by an external auditor who is independent of the organization in accordance with a reporting framework such as the IFRS. Company law in most jurisdictions requires external audit on annual basis for companies above a certain size. External auditors are required to comply with professional auditing standards such as the International Standards on Auditing and ethical guidelines such as those issued by IFAC in order to maintain a level of quality and trust of all stakeholders in the auditing exercise. (Advanced Audit and Assurance, Strathmore University Press, 2009) External Audit is the focus of this study.

Internal Audit:- The Institute of Internal Auditors define internal audit as an independent assurance and consulting activity designed to add value and improve the organization's objectives. It also helps an organization accomplish its objectives, and it improves the effectiveness of risk management, control and governance processes. Internal audit is performed by employees of the organization who report to the audit committee of the board of directors as

opposed to external audit which is carried out by professionals independent of the organization and who report to the shareholders via audit report.

Forensic Audit: - Forensic Audit involves the use of auditing and investigative skills to situations that may involve legal implications. Findings of a forensic audit could be used in the court of law as expert opinion on financial matters. (Advanced Audit and Assurance, Strathmore University Press, 2009)

Public Sector Audit: - State owned companies and institutions are required by law in several jurisdictions to have their affairs examined by a public sector auditor. Public sector audit involves the scrutiny of the financial affairs of the state owned enterprises to assess whether they have been operated in way which is in the best interest of the public and whether standard procedures have been followed to comply with the requirements in place to promote transparency and good governance. Public sector audit therefore goes a step further than the financial audit of private organizations which primarily focuses on the reliability of financial statements. (Advanced Audit and Assurance, Strathmore University Press, 2009)

Tax Audit: Tax audits are conducted to assess the accuracy of the tax returns filed by a company and are therefore used to determine the amount of any over or under assessment of tax liability towards the tax authorities. (Advanced Audit and Assurance, Strathmore University Press, 2009)

Information System Audit: Information system audit involves the assessment of the controls relevant to the IT infrastructure within an organization. Information system audits may be performed as part of the internal control assessment during internal or external audit (Advanced Audit and Assurance, Strathmore University Press, 2009)

Environmental and Social Audit: -Environmental & Social Audits involve the assessment of environmental and social footprints that an organization leaves as a consequence of its economic activities. The need for environmental auditing is increasing due to higher number of companies providing environment and sustainability reports in their annual report describing the impact of their business activities on the environment and society and the initiatives taken by them to

reduce any adverse consequences. (Advanced Audit and Assurance, Strathmore University Press, 2009)

Compliance Audit: - companies may be required to conduct specific audit engagements other than the statutory audit to comply with the requirements of particular laws and regulations. Examples of compliance audit include verification of reserves available for shareholders before dividend declaration, performance of cost audit to verify cost of production, audit of statement of assets and liabilities at time of liquidation.(Advanced Audit and Assurance, Strathmore University Press, 2009)

Value for Money Audit: - Value for money audits involves the assessment of the efficiency, effectiveness and economy of an organization's use of resources. Value for money audits is increasingly relevant to sectors which do not have profit as their main objective such as the public sector and charities. (Advanced Audit and Assurance, Strathmore University Press, 2009)

2.3. Users of External Audit Report

Auditors are generally and ultimately appointed by the shareholders and report to them directly or via the audit committee (or its equivalent) and others charged with governance. However, many companies' audited financial statements, and particularly public companies are on public record. The following are users of audit report with their needs (IASB framework for the Preparation and Presentation of Financial Statements, 2001)

- Investors: -The providers of risk capital and their advisers are concerned with the risk inherent in, and return provided by, their investments. They need information to help them determine whether they should buy, hold or sell. Shareholders are also interested in information which enables them to assess the ability of the entity to pay dividends.
- Employee:-Employees and their representative groups are interested in information about the stability and profitability of their employers. They are also interested in information

which enables them to assess the ability of the entity to provide remuneration, retirement benefits and employment opportunities.

- Lenders: - Lenders are interested in information that enables them to determine whether their loans, and the interest attaching to them, will be paid when due.
- Suppliers and other trade creditors: - Suppliers and other creditors are interested in information that enables them to determine whether amounts owing to them will be paid when due. Trade creditors are likely to be interested in an entity over a shorter period than lenders unless they are dependent upon the continuation of the entity as a major customer.
- Customers:-Customers have an interest in information about the continuance of an entity, especially when they have a long-term involvement with, or are dependent on, the entity.
- Governments and their agencies: - Governments and their agencies are interested in the allocation of resources and, therefore, the activities of entities. They also require information in order to regulate the activities of entities, determine taxation policies and as the basis for national income and similar statistics.
- Public: - Entities affect members of the public in a variety of ways. For example, entities may make a substantial contribution to the local economy in many ways including the number of people they employ and their patronage of local suppliers. Financial statements may assist the public by providing information about the trends and recent developments in the prosperity of the entity and the range of its activities.

To increase credibility of audit for the intended users and since the profession is coming under increased scrutiny due to high profile audit failures like Arthur Anderson (auditors of Enron) standard setters and regulators of the profession have tried to introduce three initiatives

1. Harmonization of auditing procedures, so that users of audit services are confident in the nature of audits being conducted around the world.
2. Focus on audit quality, so that the expectations of users are met.
3. Adherence to a strict ethical code of conduct, to try and improve the perception of auditors as independent, unbiased service providers

2.4. Audit Quality

The quality of audit services is defined to be the market-assessed joint probability that a given auditor will both (a) discover a breach in the client's accounting system, and (b) report the breach. The probability that a given auditor will discover a breach depends on the auditor's technological capabilities, the audit procedures employed on a given audit, the extent of sampling, etc. The conditional probability of reporting a discovered breach is a measure of an auditor's independence from a given client (DeAngelo, 1981)

There are many factors that have a determinant effect on audit quality. Those factors reviewed under review of the empirical studies are pointed out in the conceptual framework section after review of the empirical studies on determinants of audit quality.

2.5. Review of Empirical Studies on Determinants of Audit Quality

In the following paragraphs I would like to show the empirical studies on audit quality

DeAngelo (1981) studied the relationship between auditor size and audit quality. The study was to check whether the findings of Derieux Committee established by AICPA (American Institute of Certified Public Accountants) is true. The position of the committee was auditor size should be irrelevant in the selection of an auditor as it has no effect on audit quality. But the result of her study shows that the larger the auditor as measured by the number of current clients and the

smaller the client as a fraction of the auditor's total quasi-rents, the less incentive the auditor has to behave opportunistically, and the higher the perceived quality of the audit. Her argument is auditor's size matters on audit quality unlike the argument of the Derieux Committee.

Byrnes et al, (1992) reviewed the Quality Control Review (QCR) done on CPA auditors by Texas Education Agency (TEA). Their purpose was to see the determinants of audit quality in the public sector. Their conclusion was as follows; 1) audit quality declines as audit tenure increases 2) audit quality increases as number of clients increases 3) large financially healthy clients receive lower audit quality 4) board turnover results lower audit quality and 5) audit firms that are member of AICPA's Peer Review Section (PEER) conducts higher quality audit.

Mansouri et al, (2009) researched on Audit Competence and Audit Quality: Case in Emerging Economy. Their objective was to see the relationship between audit competence and audit quality in Iranian environment. By reviewing the respondents of sampled finance professionals including internal and external auditors they concluded that audit specialization and audit competence have a positive effect on detecting frauds.

Shafie et al, (2009) studied on "audit firm tenure and auditor reporting quality: evidence from Malaysia". They tried to see the relationship between audit firm tenure and the issuance of going concern opinion. Their sample was from distressed companies listed on Bursa Malaysia (formerly known as Kuala Lumpur Stock Exchange, KLSE). Their findings show that longer audit tenure has positive significant association with auditor's reporting decision.

Salehi and Kangarlouei (2010) by using secondary data from listed companies on Tehran Stock Exchange investigate the effect of audit quality on accrual reliability. The result of the study shows that the accrual reliability of audited firms with larger auditor size compared to audited firms with smaller size is more and the accrual reliability of audited firms with longer auditor tenure compared to audited firms with shorter tenure is more.

Adeyemi and Fagbemi (2010) by reviewing financial reports of sampled companies listed on Nigerian Stock Exchange studied the relationship of board ownership structure, institutional ownership structure, CEO duality (non-separation of roles between Chief Executive Officer (CEO) and the Chairman of the board) and firm characteristics and audit quality. Their finding

shows that non-executive directors' ownership, size and leverage have significant relationship with audit quality.

Gelaneh (2011) studied on Audit Tenure and Audit quality in Ethiopia. By using questionnaires to auditors in Addis Ababa concluded that long audit tenure will increase audit quality and long audit tenure will not reduce auditor's independence.

Suyono(2012) studied determinants of factors affecting the audit quality in Indonesia. By reviewing respondents of questioners distributed to auditors of public accounting firms and concluded that independence experience and accountability simultaneously affect the audit quality. Independence and accountability partially affects the audit quality while experience does not affect audit quality partially. His study shows that accountability has a dominant effect on audit quality.

Adeyemiet al, (2012) researched on factors affecting audit quality in Nigeria. By using both primary data through questionnaires and secondary data sampled company's financial reports they concluded that provision of non-audit service would likely have a significant effect on the audit quality in Nigeria; the length of audit tenure does not necessarily enhance audit quality in Nigeria; multiple directorship (the number of director positions held by audit committee members) of audit committee members is a significant factor in explaining audit quality in Nigeria; financial literacy of audit committee members is not a significant factor in explaining audit quality in Nigeria; and there is a subsisting significant relationship between audit committee members' independence and audit quality in Nigeria. Among the independent variables the most significant determinant of audit quality in Nigeria is multiple directorships of audit committee members.

Siregaret al, (2012) researched on the effect of audit tenure and auditors rotation on audit quality in Indonesia. They tried to see the effect of mandatory auditor rotation regulation in Indonesia in September 2002. They had two observations using secondary data one before the regulation and another after. They used discretionary accrual as audit quality proxy. The result of the study shows that one before auditor rotation became mandatory, longer audit partner tenure was associated with higher audit quality (lower discretionary accruals). Second after auditor rotation became mandatory, longer audit partner tenure became associated with lower audit quality. Third

there is no significant relationship between audit firm tenure and discretionary accruals for the period before auditor mandatory regulation, but there is a positive relationship for the period after. Fourth audit partner rotation has positive effects on audit quality but only in voluntary situations (not mandatory by regulation) and that after auditor regulation is mandated there is no evidence that it has a positive and significant effect on audit quality.

Rudyanto and Handojo (2013) make a rather unique research to obtain empirical evidence about the difference between men and women overall auditors, accounting, management, and non-accounting and non-management students in audit quality. By using primary data they concluded that first there is difference between men and women overall in risk profile but not when they are auditors. Second men and women as accounting students have difference in mathematical solving skills which has effect on audit competence. Third there is no difference in independence between men and women.

Enofeet al, (2013) studied the determinants of audit quality in the Nigerian business environment. They reviewed respondents of questionnaires from investors, financial analysts and credit institutions. Their findings show that audit quality found to be significantly related to board independence with a positive relationship; audit firm size exhibited a nonsignificant positive relationship with audit quality; audit tenure exhibited a non-significant negative relationship with audit quality and ownership structure exhibited a positive non-significant relationship with audit quality.

Bafqi et al, (2013) make a research on the relationship between auditor's characteristics and audit quality. They conducted their research using secondary data from the reports of listed companies from Tehran Stock Exchange. Their study shows audit tenure is not related to audit quality whereas audit specialization and audit quality are positively related.

Al-Khaddash et al, (2013) studied about factors affecting audit quality in Jordanian Commercial Banks. They used primary data through questionnaires to external auditors who have auditing experience of Jordanian Commercial Banks and internal auditors working in Jordanian Commercial Banks. The result of their study shows that internal control system doesn't affect auditing quality in the Jordanian banking sector; the independence of the auditor doesn't affect auditing quality in the Jordanian banking sector; Auditor efficiency affects auditing quality in the

Jordanian banking sector; the reputation of the auditing office affects auditing quality in the Jordanian banking sector; auditing office fee affects auditing quality in the Jordanian banking sector; the size of the auditing office doesn't affect auditing quality in the Jordanian banking sector; the specialty and proficiency of the auditor doesn't affect auditing quality in the Jordanian banking sector. Finally they find out that there is no difference in perception of audit quality between internal and external auditors.

Sawanand Alsaqqa(2013) by reviewing the respondents of clients and auditors of Libyan oil industry find out that audit size is positively related to audit quality and audit of big four in Libya has more audit quality than the rest.

Halim et al, (2014) studied the effect of audit competence and audit independence on audit quality by also adding audit time budget and professional commitment as a moderate variable. They used a primary data from public accountants in Indonesia. They found out that audit quality will increase with the higher audit competence and higher auditor's independence. They also found out that smaller audit time budget, the greater effect of auditor's competence on audit quality. This is in line with resilience theory of (Grotberg ,1995), that indicate that respondent's ability to confront and overcome audit time budget pressure at thriving level indicated that individuals are not only able to return to function before and when there is pressure, but resilient individuals would be able to confront and cope with stressful and challenging conditions, by bringing new capabilities that make individuals better. They also concluded that strong commitment has a positive effect on both auditors competence and auditors independence that both have a positive significance on audit quality.

Kilgore et al, (2014) researched on the drivers of audit quality from views of Australian Chief Finance Officers (CFOs). They used internet based surveys. The CFOs are selected from a database maintained by ACCA Australia and New Zealand. They identified ten audit firms and audit team attributes on audit quality. Audit firm size; Audit partner tenure; Provision of non-audit services (NAS); Audit firm industry experience; Audit quality-assurance review were used as firm attributes. Partner/manager attention to audit; Communication between audit team and client management; Partner knowledgeable about client industry; senior manager/manager knowledgeable about client industry; Very knowledgeable audit team are used as audit team attributes. From the 5 team attributes Partner/manager attention to audit; Partner knowledgeable

about client Industry and Communication between audit team and client management get higher ranking and from the 5 firm attributes Audit firm size and Provision of non-audit services get higher ranking. In general team attributes to be more important than firm attributes for audit quality.

James and Iziem (2014) researched the relationship of audit firm characteristics and audit quality in Nigeria. They reviewed the financial reports of sampled companies listed in Nigerian Stock Exchange and concluded board independence; client firm size, audit firm size and auditor independence has a positive effect on audit quality while long audit tenure (auditing for a longer period by same auditor) has a negative effect on audit quality.

Rahmiana and Agoes (2014) studied on the effect of auditor independence, audit tenure, and audit fee on audit quality in Indonesia. They used primary data through questionnaires to external auditors in Jakarta, Indonesia. Their result shows that audit independence has a positive effect in audit quality while audit tenure doesn't have a significant influence on audit quality. Audit fee has a positive effect on audit quality. Auditor independence, audit tenure, and audit fee simultaneously have significant effect on audit quality.

Hosseiniakani et al, (2014) reviews audit quality factors from various researches on audit quality concepts and audit quality criteria. The results of their study shows that among audit quality determinants large size auditors, industry specialization by auditors, audit reputation and audit fee have a positive effect on audit quality. More audit fee is charged by auditors with large size, auditors that have reputation and auditors with industry specialization which have a positive effect on audit quality.

Afesh (2014) in his study on Audit Fees Determinants and Audit Quality in Ethiopian Commercial Banks find out that higher audit fees; big audit firms and bank size have a positive significant effect on the external audit quality of Ethiopia

Moraes and Martinez (2015) studied on Audit Fees and Audit Quality in Brazil. Their objective was to see the relationship between audit fee and audit quality. They reviewed the financial reports of 300 large companies that are listed in BM&FBovespa (Brazilian Stock Exchange). By using discretionary accruals as proxy they find out that audit firms that charge less for their service tend to be more relaxed regarding earnings management by their client companies.

Discretionary accruals is used to by some management as earning management by increasing it to decrease profit and by decreasing it increase profit.

Leilina(2015) studied on Determinants of Audit Quality Evidence from manufacturing companies in Addis Ababa, Ethiopia. By analyzing five years data of sampled manufacturing companies concluded that audit firm industry specialization, joint provision of audit and non-audit service and certified audit professionals ratio significantly affect audit quality in Ethiopian manufacturing share companies. She found out that audit firm size and audit firm tenure has little or no significance on audit quality in manufacturing companies in Addis Ababa, Ethiopia.

Kitata (2016) in his study on Factors affecting quality of External Auditing: The case of Ethiopian Commercial Banks indicated that there is no significant relationship between audit specialization and audit quality; audit tenure and audit quality in external audit of commercial banks in Ethiopia whereas bank size and audit fee has a positive significant relationship with audit quality in external audit of commercial banks of Ethiopia.

In general from the empirical studies many are done outside Ethiopia and those done in Ethiopia focuses in one industry (commercial banks, manufacturing companies) or they are limited to few variables. This paper will attempt to fill this knowledge gap by using many variables. It uses the views of external auditors who have a senior and above roles in their respective firms and also not restricted in an industry but rather the perception of the auditors about audit quality in Ethiopia in all industries (manufacturing, financial institutions, projects, not for profit organizations)

2.6. Conceptual Frame Work

Audit quality has been the focus of theoretical and empirical auditing research for the last 30 years. Even though many studies are done on audit quality worldwide enough studies are yet to be done in the Ethiopia.

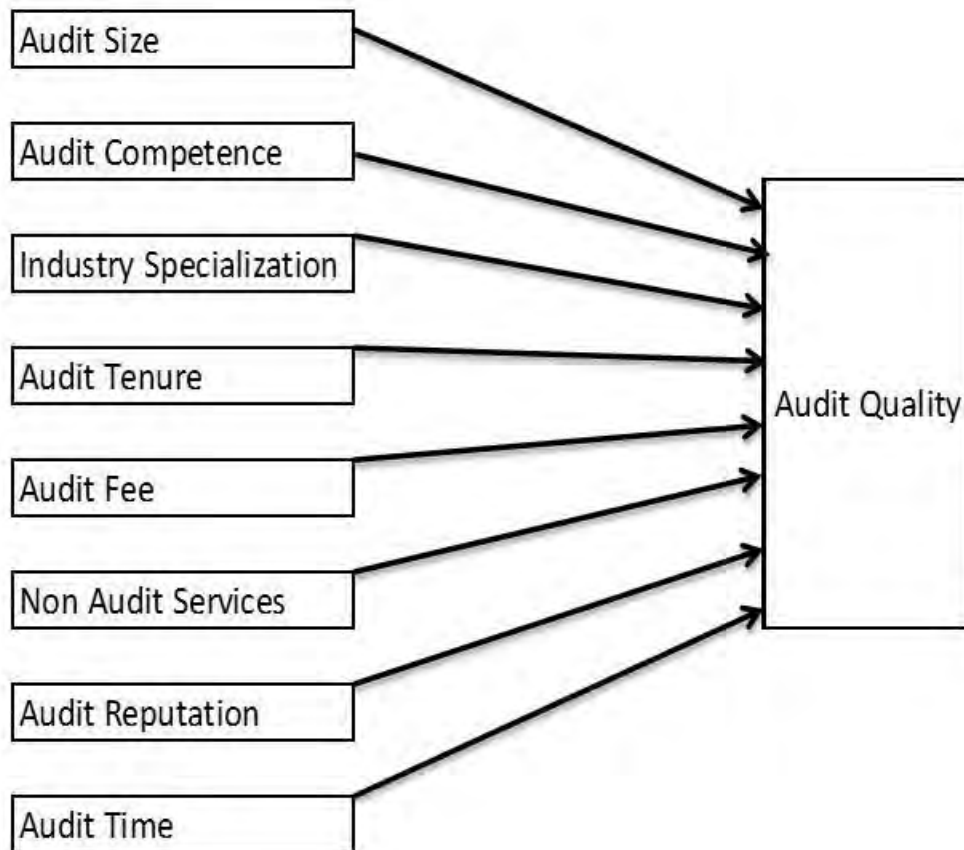
The following variables are used in the empirical studies stated in the literature review. They are either audit firm attributes or client attributes. As the study uses the respondents of auditors for the analysis audit firm and audit team attributes are used as independent variables in the study.

- Audit Size :- which is an audit firm attribute is also used as an independent variable in this study
- Audit Fee :- which is an audit firm attribute is also used as an independent variable in this study
- Peer Review by third Parties: - in some countries auditors work is reviewed by third party. For instance in the US there is an AICPA (American Institute of Certified Public Accountants) Peer Review membership. If an auditor is member of this peer review his/her work will be reviewed by other member of the peer review. This will increase audit quality as the audit work will be reviewed by a second eye from another audit firm. One disadvantage of this is it will increase audit time. In Ethiopia this kind of Peer Review association does not exist hence not selected as independent variable in this study.
- Audit Quality Assurance Review:- in some countries there is a mandatory annual review by regulatory authorities for instance in Australia there is Australian Securities and Investments Commission and the Public Company Accounting Oversight Board inspection of audit firmsthe assurance review behind these external inspections is to reinforce public confidence in audit quality. There is no regulatory body that mandatorily inspects all audit firms in Ethiopia hence this variable is not taken in the study.

- Audit Reputation :- which is an audit firm attribute is also used as an independent variable in this study
- Industry specialization:-which is an audit firm attribute is also used as an independent variable in this study
- Audit competence :which is an audit team attribute is also used as an independent variable in this study
- Audit Tenure : which is an audit firm attribute is also used as an independent variable in this study
- Auditor Independence: - Auditor Independence is used as an independent variable by (James and Izien ,2014). I did not use it as variable as it is the first thing an auditor should have in the first place. The International Ethics Standards Board for Accountants (IESBA) of Ethics for Professional Accountants required that an auditor should be
 - ✓ Independence of mind—the state of mind that permits the provision of an opinion without being affected by influences that compromise professional judgment, allowing an individual to act with integrity, and exercise objectivity and professional skepticism; and
 - ✓ Independence in appearance—the avoidance of facts and circumstances that are so significant a reasonable and informed third party, having knowledge of all relevant information, including any safeguards applied, would reasonably conclude a firm’s, or a member of the assurance team’s, integrity, objectivity or professional skepticism had been compromised.
- Board Turnover; Board Independence and Board Ownership Structure: these are audit client attributes that are not used as an independent variable as the study used views of auditors for determinant of audit quality in Ethiopia.

- CEO Duality is when one person holds both the Chief Executive Officer and Board Chairman position. This is an audit client attribute that is not used as the study used audit team and firm attributes as independent variables.
- Client Firm Size, Financial Healthiness of Clients, Firm Characterization, Institutional Ownership Structure, Client Internal Control System are all independent variables in the empirical studies that are not used in this study as the study used audit team and audit firm attributes as independent variables.
- Number of certified professionals in audit firms used by (Leilina, 2015) as an independent variable but not used in the study as Audit Competence is used as an independent variable. Audit Competence is considered by the study as being a better attribute than having many certified professionals in an audit firm.
- Provision of non-audit services :- which is an audit firm attribute is also used as an independent variable in this study
- Audit Time :- which is an audit firm attribute is also used as an independent variable in this study

The conceptual framework shown below depicts the relationship of the independent variables with the dependent variable that is audit quality. The independent variables are those variables selected for this particular research on the determinants of audit quality in Ethiopia. As mentioned above, independent variables used in the empirical studies are selected and used for the purpose of the research. Some of the independent variables are not used for the study as they are either client attributes (as mentioned in the scope of the study it is only auditors' views, not clients' views that is used for the study) or does not exist in the external audit industry of the country.



Own construction adapted from Hosseinniakaniet. al, (2014) and Habib, (2011)

2.7. Conclusion

The chapter reviews theoretical literatures on types of audit; users of external audit report and audit quality. It also reviews empirical studies both done in and out of Ethiopia on audit quality. It also identifies the knowledge gap that the study will try to fill. And finally it identifies the various variables that are used in the empirical studies that have effect on audit quality and also the variables used for the study.

CHAPTER THREE

Research Design and Methodology

3.1. Introduction

This chapter outlines the methodology which was used in the collection of data and specifies the research design, data collection methods, data collection procedures and data analysis

3.2. Research Design

This presents the method and procedures which is used in gathering information required to answer the research questions. The study used a quantitative, descriptive research using a questionnaire. A descriptive research is a research for which the purpose is to produce an accurate representation of persons, events or situations (Saunders et al, 2009). In this regard, several researchers (Mansouri et al, 2009); (James and Izien, 2014)) had employed descriptive technique and this study will also employ this technique in this research. The research questions and the objectives stated were applicable for this type of study. First it's using the opinion/perceptions of external auditors and descriptive studies, primarily concerned with finding out "what is," and it also uses quantitative methodology as it converted the responses into scores using Likert scale.

The study will attempt to collect data from members of external auditors in Ethiopia by asking through questionnaires to assess possible relationship of different factors and audit quality Ethiopia.

3.3. Research Population

The population for the research is those professionals who have a senior and above role in the Ethiopian audit industry. From the three audit service providers specified in chapter 1 (the Office of Audit General, Audit Service Corporation and Private Audit Firms), the Office of Auditor General is excluded as it's auditing only the federal and regional government budgetary offices.

As of May 2016 there are 88 audit firms including the government owned Audit Service Corporation authorized under Accounting and Auditing Board of Ethiopia (AABE). The firms have three grades Grade A; Grade B and Grade C. It's difficult to know the exact number of population (owners/partners and staff who have a senior and above role) of the firms. There are very small firms which have as small number of staff as five and big ones that have up to 60 staff. Junior Auditors are excluded from the population because junior staff may not have the experience to judge and understand the effect of the independent variables that may have effect on audit quality.

3.4. Sample Size and Selection

The study used convenience sampling technique to select samples of the study under consideration. Convenience sampling as one of sampling techniques (non- probability sampling techniques) is used by researchers regardless of its limitations. This technique is employed due to the accessibility and proximity of the subjects to this research.

It is difficult to know the actual number of auditors under each of the 88 authorized audit firms in the country. A study on the Ethiopian audit firms put the number of staff in each audit firm just above 10 (Fekede, 2015). By this calculation the population of the study will be 830 ($83 \times 20 \times 5$). The sample size for this study is 88 (10% of the population) and the response rate (60%). The actual percentage of the respondents to the population is 6%. Having a sample size that is 10% of the population have the advantage that the sample more represents the population. Comparing this this with related researches (Assaye, 2016) use 53 samples; (Fekede, 2015) uses 20 samples and (Gelaneh, 2011) uses 50 samples. Hence compared to similar studies both the sample and the response rate are adequate for the purpose of the study.

The link for questionnaire was sent for 88 participants whom the researcher was able to find their email addresses. One participant is selected from each audit firms. The researcher was able to collect 53 responses (60% response rate)

The basic drawback of convenience sampling is since the sample is not chosen at random, the inherent bias in convenience sampling means that the sample is unlikely to be representative of

the population being studied. But for this research since the population is homogeneous the researcher found out that convenience sampling technique can achieve the objective of the study.

3.5. Data Type, Sources and Instruments

The data type used is primary data type that was collected by way of questionnaires which was planned to show the perception of the private audit firm staff and owners/partners about the audit quality in Ethiopia. The questionnaire is developed based on literature review; (Pouraghajan, 2009); (Gelaneh, 2011); (Sawan and Hamuda, 2014); (Fekade, 2015); and (Sori et al, 2016)

The study uses survey method of collecting data using questionnaires. A survey is one of the descriptive data collection method. Typically, surveys gather data at a particular point in time with the intention of describing the nature of existing conditions, or identifying standards against which existing conditions can be compared, or determining the relationships that exist between specific events (Cohen et al., 2007)

Survey has the following usefulness

- gathers data on a one-shot basis and hence is economical and efficient
- represents a wide target population
- generates numerical data
- provides descriptive, inferential and explanatory information
- manipulates key factors and variables to derive frequencies
- gathers standardized information (i.e. using the same instruments and questions for all participants)
- ascertains correlations (e.g. to find out if there is any relationship between gender and scores)
- presents material which is uncluttered by specific contextual factors
- captures data from multiple choice, closed questions, test scores or observation schedules

- supports or refutes hypotheses about the target population
- generates accurate instruments through their piloting and revision (Cohen et al., 2007)

Survey can be classified in to

Longitudinal studies: - use repeated cross-sectional studies, which are ‘carried out regularly, each time using a largely different sample or a completely new sample

Trend studies: -focus on factors rather than people, and these factors are studied over time. Newsamples are drawn at each stage of the data collection, but focusing on the same factors.

Cross-sectional studies: - is one that produces a ‘snapshot’ of a population at a particular point in time. (Cohen et al., 2007).

Hence the research is a cross-sectional survey study.

The researcher used google form which is an easy and streamlined way of both putting the questionnaire and collecting responses online. The questionnaires used by this research as a main source of data collection instrument were structured questionnaires. In connection to this, the questions were Closed (or multiple choice) questions. This is due to the fact that close ended questions have the following advantages.

- the respondent is restricted to a finite (and therefore more manageable) set of responses
- they are easy and quick to answer,
- they have response categories that are easy to code, and
- they permit the inclusion of more variables in a research study because the format enables the respondent to answer more questions in the same time required to answer fewer open-ended questions. (Maria T & Nadia A, 2005)

The questionnaires were prepared in English language as the participants are professionals who use many of their working in the English language. Audit programs, test of control programs, audit planning, audit completion checklist and both current and permanent files of their audit

clients is prepared or compiled in English language. The questionnaires were divided in to two categories. The first part focuses on demographic information such as level of education, current positions in their respective firms, Job experience.

The second part focuses on specific questions regarding determinants of audit quality in Ethiopia.

The questionnaires were developed based on the Likert-scale method (Likert scaling is the most frequently applied attitude scaling technique in educational research) so that the responses can be analyzed statistically. In developing the questionnaires respondents are expected to answer the questions based on their knowledge as Strongly Agree (SA), Agree (A), Neutral (N), Disagree (DA) and Strongly Disagree (SDA). A response of strongly agree takes 5 points, Agree takes 4 points, Neutral takes 3 points, disagree takes 2 points and strongly disagree takes 1 point.

The questionnaires were tested for both validity and reliability. Validity is that quality of a data-gathering instrument or procedure that enables it to measure what is supposed to measure (Best and Khan, 1977). As mentioned in section 3.5 (Data Type, Sources and Instruments) the questionnaires were adopted from published articles and thesis. Before distributing the questionnaires they were given to selected individuals who are working in the audit industry to have their comments on the questions. Reliability is the degree of consistency that the instrument or procedure demonstrates (Best and Khan, 1977). Reliability of the responses were checked before proceeding for data analysis.

3.6. Data Analysis

Before processing the responses, the completed questionnaires were edited for completeness and Consistency. The data was processed and grouped into categories. Descriptive analysis was used mainly to summarize the data collected. The data was edited for accuracy, uniformity, completeness and arranged for coding. Google Form in combination with Microsoft excel program was employed in order to analyze the data collected using questionnaires. Google form

has a functionality to see the responses by individual or summary level and it has also functionality of exporting all the responses including the exact time and date of the responses to Microsoft Excel. (These programs enabled to generate descriptive statistics (such as percentages, mean and Median), tables and graphs. These tools are used usually in descriptive analysis (Gelaneh, 2011); (Fekade, 2015) and (Asaye, 2016) used either all or one of the tools in their descriptive studies on audit quality in Ethiopia.

Mean is the most commonly used measure of central tendency it has advantages First it has a good representative of the data as it uses every value in the data and Second it best resists the fluctuation between different samples. Median is also measures central tendency and it has advantage of First it's easy to compute and comprehend Second it is not distorted by outliers /skewed data and Third it can be determined for ration, interval and ordinary scale (Manikandan, 2011).

Descriptive method is used by (Gelaneh, 2011); (Fekade, 2015) and(Asaye, 2016) on their study on “the impact of extended audit tenure on auditors independence and audit quality in Addis Ababa”; “the current status of professional ethics and independence of private audit firms engaged in Ethiopia and its overall impact on audit quality” and “the impact of provision of NAS to audit clients on auditors independence and audit quality” respectively.

Afeseha (2014); Leilina (2015) and Kitata (2016) used both descriptive method and correlation analysis using primary data through questionnaires and secondary client data of sampled companieson their studies on “audit fee determinants and audit quality in Ethiopian commercial banks”; “the determinants of external audit quality evidence from manufacturing share companies of Addis Ababa” and “factors affecting the quality of external auditing: the case of Ethiopian commercial banks” respectively.

Therefore, the data collected for this study using questionnaires was presented using statistical measures(mean and median) such as bar graphs, frequency tables, percentages, and graphical presentations. The study used the mean interpretation standard of (Best and Khan, 1977)

From	To	Interpretation
1	1.8	Very Low
1.8	2.6	Low
2.6	3.4	Neutral
3.4	4.2	High
4.2	5	Very High

The next chapter presents the data analysis and results arrived at from the data collected based on the research questions.

CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS

This chapter presents the data analysis based on the data collected from the participants and findings in answering the research question (s). The objective of this research was to assess determinants of audit quality in Ethiopia. Hence this research was conducted to find out what variables are perceived by external auditors for having determinant effect in relation to audit quality.

To address the research question(s) and the research objective(s), data should have been collected. Therefore, questionnaires based on the empirical literature review were developed to collect the necessary data for analysis.

Questionnaires on each of the eight independent variables mentioned in the conceptual framework were incorporated.

4.1.Results

This section presents the survey results obtained from sampled external auditors based on questionnaires distributed and available information.

4.1.1. Survey results

Survey was the main method adapted in this study to see the perceptions of external auditors about the determinants of audit quality in Ethiopia. Results obtained from the survey are presented in two parts. The first part is about the profile of the respondents namely their level of education, their current position in their respective audit firms, and years of experience as an

external auditor. The second part is about the results of the responses on questions regarding the relationship of the eight independent variables (table1) and audit quality.

4.1.2. Profile of Respondents of the survey

Questionnaires were distributed to 88 sampled participants in order to achieve the target of getting 50 responses to achieve the objectives of the study. The sampled participants have a position of Senior Auditors, Audit Managers Senior Audit Managers and Partners or Principals of the respective audit firms. 53 responses (60% response rate) were obtained which was above the target response of 50.

Regarding the level of Education of the respondents out of fifty three participants; all have at least a first degree, 35 (66%) of the respondents are ACCA (members of the Association of Chartered Certified Accountants), 3 (5.7%) are CIA (Certified Internal Auditors) in addition to ACCA, 6 (11.3%) have a Master’s Degree. The level of both the academic education and professional qualification of the respondents shows that respondents have adequate knowledge in evaluating the audit quality in Ethiopia.

Table 4.2 Respondents level of Education

Level of Education	Frequency	Percent
Bachelor	47	89
Masters	6	11
Total	53	100

Source: - Online Survey and Microsoft Excel

Table 4.3 Respondents Professional Qualifications

Professional Qualifications	Frequency	Percent
ACCA and CIA	3	6
ACCA	32	60
No Professional Membership	18	34
Total	53	100

Source: - Online Survey and Microsoft Excel

Regarding to current position held in their respective audit firms, 19 (36%) are principals or partners; 8 (15%) have a role of Senior Audit Manager; 9 (17%) have a role of Audit Manager; 2 (4%) have a role of Deputy Audit Manager and 15 (28%) have a Senior Auditor role (Table 4.4). 68% of the respondents have a position of audit managers and above roles in their respective firms. One gets these roles because of both enough experience in external audit and has a required academic and professional qualification for the positions. This also shows that respondents have adequate roles in evaluating the audit quality in Ethiopia.

Table 4.4 Respondents Current Position

Current Position	Frequency	Percent
Principal/Partner	19	36
Senior Audit Manager	8	15
Audit Manager	9	17
Deputy Audit Manager	2	4
Senior Auditor	15	28
Total	53	100

Source: - Online Survey and Microsoft Excel

Regarding to years of experience as an external auditor, 26 (49%) have more than 10 years' experience as an external auditor; 14 (26%) have a 6 to 10 years' experience as an external auditor; 12 (23%) have a 2 to 5 years' experience as an external auditor; and 1 (2%) has less than a year experience as an external auditor (Table 4.5). 75% of the respondents have more than 6 years external audit experience almost half of them a 10 plus years' experience. Thus the respondents have good experience to get information in relation to the present study.

Table 4.5 Respondents Experience as an External Auditor

Years of Experience as an External Auditor	Frequency	Percent
More than 10 years	26	49
6 to 10 years	14	26
2 to 5 years	12	23
Less than a year	1	2
Total	53	100

Source: - Online Survey and Microsoft Excel

The second part of this chapter deals with the responses on questions regarding the relationship of the eight independent variables and audit quality.

4.2 Assessment of Audit Quality in Ethiopia

The main part of this paper deals with the assessment of audit quality in Ethiopia. Various questions were developed under each independent variable as indicated in table 1.1. As mentioned in chapter 3.5 the questionnaire was developed and filled online using google form in such a way that responding to each question is mandatory. Thus respondents answered all of the questions. The reliability of the responses is also checked for inconsistency between answers to each of the questions in each of the eight questionnaires' categorized by the independent variables.

The analysis and findings are presented below using tables, graphs and percentages.

4.2.1 Audit Size and Audit Quality

The first part of the questionnaire was about the relationship of audit firm size and audit quality and the results of the questions is summarized as follows

Table 4.6 Audit Size and Audit Quality

Questions	SA	A	N	DA	SDA	Mean	Median
B.I.1	6	24	11	5	7	3.321	4
B.I.2	10	24	9	7	3	3.585	4
B.I.3	11	22	16	4	0	3.755	4
B.I.4	7	22	15	7	2	3.472	4
B.I.5	4	21	17	11	0	3.340	3
B.I.6	1	21	19	10	2	3.170	3
Overall	39	134	87	44	14	3.44	3.67

Source: - Online Survey and Microsoft Excel

The largest mean for questions about audit firm size and audit quality is 3.755 for question number B.I.3 (Larger auditing firms are less willing to acquiesce to client pressure to allow substandard reporting.) which is close to 4 in Likert scale and has high value in (Best and Khan ,1977) standard. This shows that most of the auditors agree that large audit firms will not easily be pressurized by their clients in issuing audit report to appease their clients demand for substandard report. The lowest mean is for question number B.I.6 (Large audit firm are associated with high accurate forecasts than were smaller accounting firms) which is just 3.17 ,neutral value by (Best and Khan ,1977) that shows respondents are neutral whether large auditors have accurate forecast than the small size audit firms.

If we just consider the mean the respondents do not that much agree on audit firm size's positive effect on audit quality, by having overall mean value of 3.44, except questions number B.I.2 (Large auditing firms improve the credibility of the financial statements) and B.I.3 (Larger auditing firms are less willing to acquiesce to client pressure to allow substandard reporting) that have mean value of 3.585 and 3.755 respectively which is close to 4 in Likert scale. But if the

dataset is skewed, the median is less sensitive to extreme values (Singpurwalla, 2013). The median for the first four questions is 4 which is explained in the above paragraph. The responses show that respondents agreed that big audit firms will detect and report material problems, improve the credibility of the audited financial statements, and will not be easily pressurized by client's undue influences. These results shows that the respondents believe large audit firms maintain a higher level of audit quality.

The results are in line with the research hypothesis that says "Firm size has a positive effect on audit quality"

The link between the request for audit services and audits to large-firms is based on the "agency theory" as well as the links between audit quality and the auditor size (Lindberg, 2001). Clients intend to choose a high quality auditor to reach the best auditing results as large audit firms have more incentive to issue a reliable audit report with the purpose of maintaining their reputation (DeAngelo, 1981). Some factors such as professional competence, auditor's qualification and supporting technical information undoubtedly can be found in large audit firm's system.

Therefore the results of the study on the relationship between audit size and audit quality is widely acceptable on global level. In countries where there is a developed capital market listed companies prefer to be audited by big firms. According to a recent (September, 2016) article published on thehindu.com, in India the big four firms known globally as "Big Four" auditors (Deloitte, EY, KPMG and Price Waterhouse) together handled the audit of 26% of the total listed companies in the country's National Stock Exchange (NSE) (The Hindu Newspaper). In another study that is done based on 2012 year-end data, the four largest registered public accounting firms and their global affiliates audited more than 98 percent of the global market capitalization of U.S. issuers (Newquist, 2013).

In general large audit firms can offer a higher audit quality because first larger firms have greater reputation at stake, giving them an incentive to be more independent (De Angelo, 1981); they are able to give their client's financial statements a higher degree of credibility and that they have greater resources at their disposal, and so can attract employees with superior skills and experience.

Audit firm size was positively associated with audit quality in other studies; (Kitata, 2016), (Leilina, 2015), (Kilgore et al., 2014), (James andIzien, 2014), (Sewan and Alsaqqa, 2013), (Salehi and Kangarlouei, 2010), (Donald et al., 1992), and (DeAngelo, 1981)

Whereas the size of the auditing office doesn't affect auditing quality in the study of (AL-Khaddash et al., 2013) on "Factors affecting the quality of Auditing: The Case of Jordanian Commercial Banks"

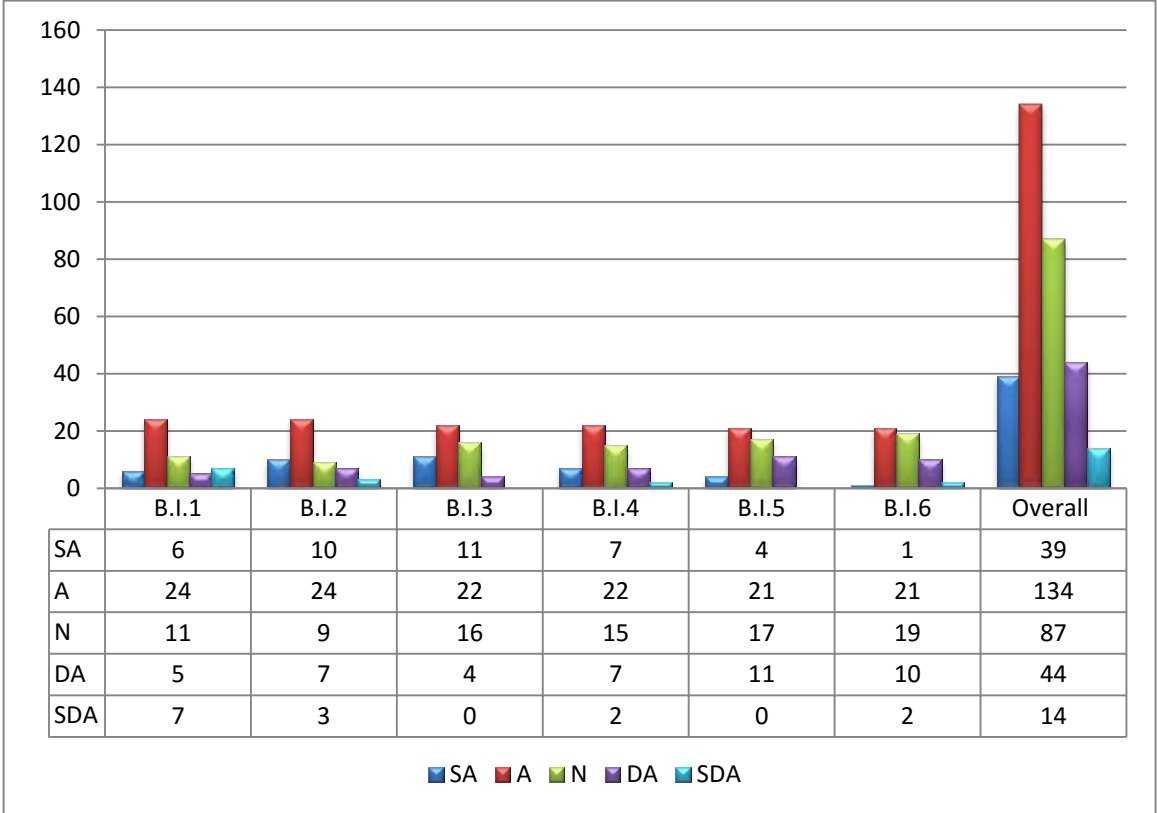


Figure 4.1 Audit Size and Audit Quality

4.2.2 Audit Competence and Audit Quality

The second part of the questions was about the relationship of auditors competence and audit quality the results of the responses is summarized as follows

Table 4.7 Audit Competence and Audit Quality

Questions	SA	A	N	DA	SDA	Mean	Median
B.II.1	15	34	2	2	0	4.170	4
B.II.2	12	35	3	3	0	4.057	4
B.II.3	11	26	6	10	0	3.717	4
B.II.4	21	27	4	1	0	4.283	4
Overall	59	122	15	16	0	4.057	4

Source: - Online Survey and Microsoft Excel

When we see the responses of the respondents for relationship of audit quality and audit quality, the mean for all questions is either above 4 or close to 4 (B.II.3 that has mean value of 3.717) High value as per (Best and Khan ,1977) standard. And the median for all of the four questions is 4. This clearly shows that the respondents agree auditor's competence has relationship with audit quality.

The results are in line with the research hypothesis that says "Audit Competence has a positive effect on audit quality"

Professional audit competence plays an important role in the audit process. It may contain a considerable impact on auditor’s professional judgment and audit quality. Hence the result of the study is a widely acceptable result. Professional competence can be achieved by education, training, exams and professional experience. Maintenance of professional experience is mandatory requirements like CPD (continuous professional development) and CPE (continues professional education) in professional associations of ACCA and CIA respectively.

Auditors’ competence is found to have a positive relationship with audit quality in other studies as well, (Leilina, 2015), (Hosseinxiakani et al., 2014), and (Halim et al., 2014)

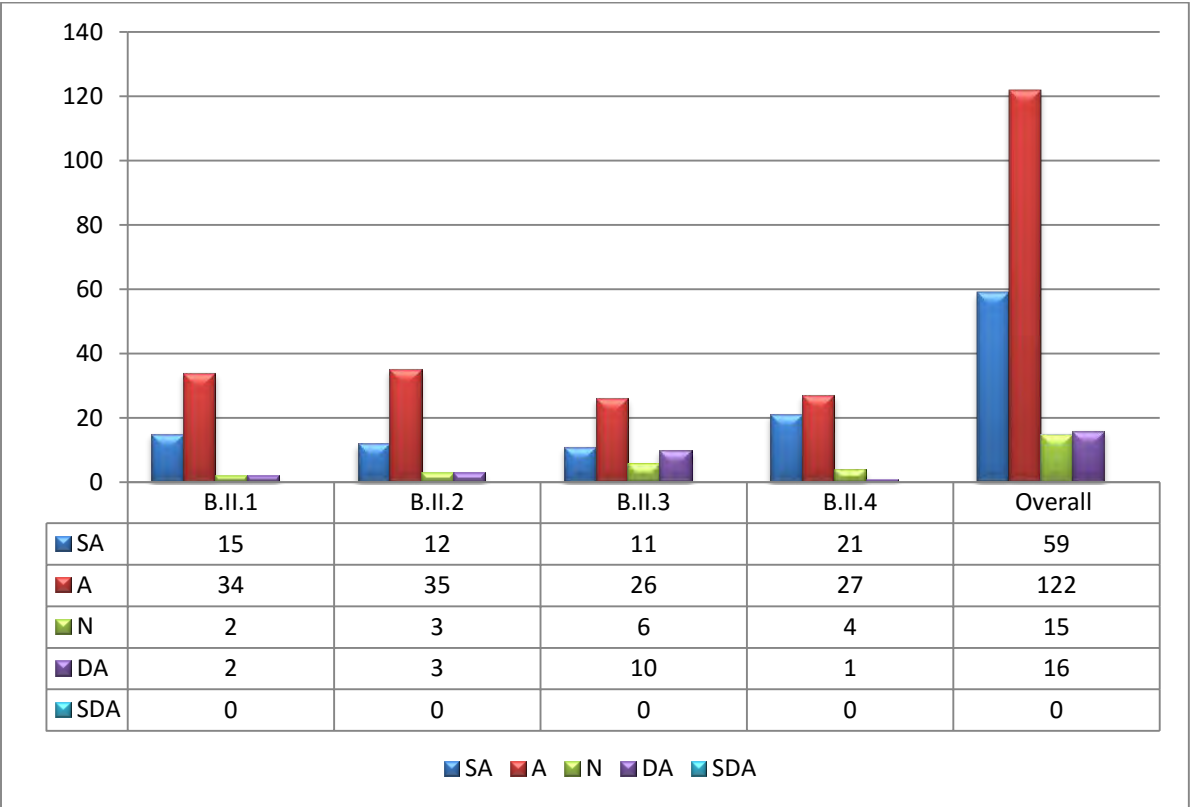


Figure 4.2 Audit Competences and Audit Quality

4.2.3 Industry Specialization and Audit Quality

The third part of the questions was about the relationship of auditors industry specialization (industry expertise knowledge) and audit quality the results of the responses is summarized as follows

Table 4.8 Industry Specialization and Audit Quality

Questions	SA	A	N	DA	SDA	Mean	Median
B.III.1	17	32	3	1	0	4.226	4
B.III.2	21	32	0	0	0	4.396	4
B.III.3	5	19	17	11	1	3.302	4
B.III.4	3	28	11	11	0	3.434	4
B.III.5	1	9	14	26	3	2.604	2
B.III.6	0	4	11	30	8	2.208	2
Overall*	57	167	56	36	2	3.758	3.833

Source: - Online Survey and Microsoft Excel

(Questions B.III.5 and B.III.6 are inversely recoded for overall mean and median calculation purposes only as the questions show negative relationship between industry specialization and audit quality. The above overall score for “SA”, “A”, “N”, “DA” and “SDA” and figure 4.3 is also based on the reverse scoring for both questions (appendix))

In regarding the relationship of auditors industry specialization and audit quality the highest mean (4.396) was for question number B.III.2 that says “Industry expertise knowledge enhances the likelihood that auditors discover errors” the first four questions get either above 4 mean or 4 median. Hence the respondents agree that auditor’s industry specialization is associated with

high level of audit quality, fewer violations of international standards such as GAAP and IFRS, less accounting restatements and easily discover errors.

The last two questions get either below 3 mean or 2 median. It means that the respondents do not agree that industry specialization will result potential disputes with clients and reduction of auditor's independence.

Respondents agree that audit quality is positively related to audit specialization and industry expertise knowledge by auditors.

The results are in line with the research hypothesis that says "Industry Specialization has a positive effect on audit quality"

Auditor specialization in an industry leads to a higher level of technical competence and technical information. It is mainly due to auditor's potential ability to detect financial statement errors (Hosseinniakani et al, 2014). Industry expertise advantages together with general audit knowledge can enhance the audit technical ability. The result of the study on the effect of industry specialization on audit quality is a widely accepted phenomenon.

Industry specialization or industry expertise knowledge of auditors is also associated with higher audit quality in other studies (Leilina, 2015), (Kilgore et al., 2014), (Bafqi et al., 2013), (Mansouriet al., 2009).

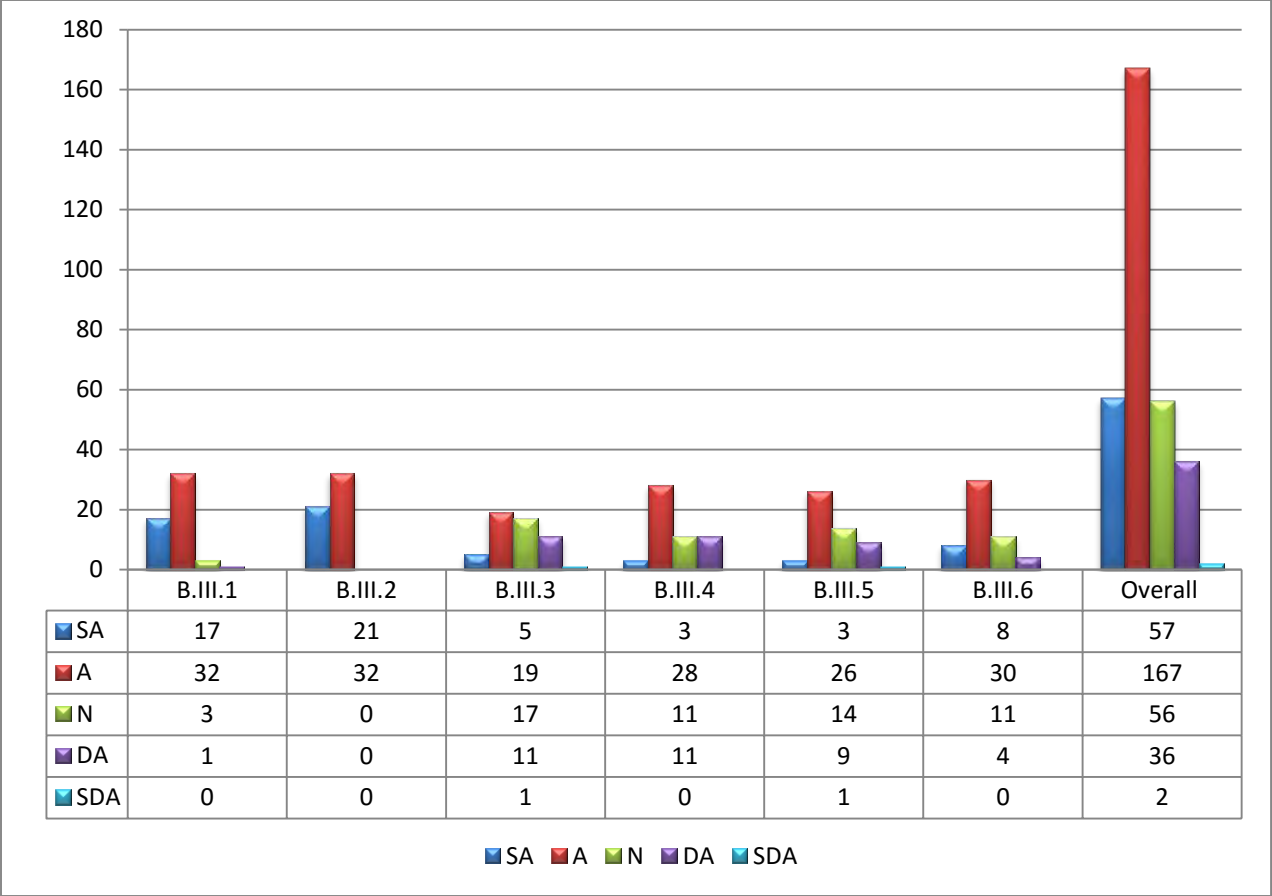


Figure 4.3 Industry Specializations and Audit Quality

4.2.4 Audit Tenure and Audit Quality

The fourth part of the questions was about the relationship of audit tenure and audit quality the results of the responses is summarized as follows

Table 4.9 Audit Tenure and Audit Quality

Questions	SA	A	N	DA	SDA	Mean	Median
B.IV.1	1	24	10	17	1	3.132	4
B.IV.2	2	23	10	17	1	3.151	4
B.IV.3	0	15	18	19	1	2.887	2
B.IV.4	0	9	25	19	0	2.811	3
B.IV.5	1	15	12	22	3	2.792	2
B.IV.6	3	29	6	15	0	3.377	4
Overall*	9	132	81	92	4	3.157	3.167

Source: - Online Survey and Microsoft Excel

(Questions B.IV.4 and B.IV.5 are inversely recoded for overall mean and median calculation purposes only as the questions show positive relationship between long audit tenure and audit quality .The above overall score for “SA”, “A”, “N”,”DA” and ‘SDA” and figure 4.4 is also based on the reverse scoring for both questions (appendix))

All of the means for questions on audit tenure and audit quality are close to 3 in the Likert scale. This show the respondents are neutral about the relationship of long audit tenure and audit quality. If we also see the medians 3 gets 4; 1 gets 3 and two questions get 2. This also on average shows that the auditors are neutral about the effect of long audit tenure on audit quality.

The effect of long audit tenure on audit quality is one of a debatable subject. When there is a longtime relationship between auditors and clients auditors’ advocacy role for their clients may increase which will have an effect on the independence of the auditor.

The result of the study shows that the respondents neither agree nor disagree on the effect of long audit tenure on audit quality. In the country because of the relative small number of auditors it may be difficult for clients to frequently rotate their auditors. In developed countries the concern of long audit tenure on audit quality can be tackled with audit lead and audit review partners’ rotation. Rotation of audit lead and audit review partner after five years audit work of a client is mandatory by law in US (Sarbanes-Oxley act of 2002). In Ethiopia many of the firms are

established under sole proprietorship basis and the few partner firms are formed by two, there and maximum of four partners according to the data used for study. These will result a familiarity threat which will have an adverse effect on audit quality. Hence it will be difficult to use rotation of lead auditors where there is a long auditor –client tenure. Rotation of partners was associated with higher audit quality in the study of Siregar et al. (2012) on “Audit Tenure, Auditor Rotation, and Audit Quality: The Case of Indonesia”

The overall result is not in line with the research hypothesis that says “Audit quality declines as Audit tenure increases”

In some studies long audit tenure was associated with lower audit quality (James and Izien, 2014), (Gelaneh, 2011), (Deis, Jr and Giroux, 1992). Whereas in other studies, similar to the result of this study, audit tenure has no or insignificant impact in audit quality (Leilina, 2015), (Rahmina and Agoes, 2014), (Enofe et al., 2013), (Bafqi et al., 2013) and (Adeyemiet al., 2012)

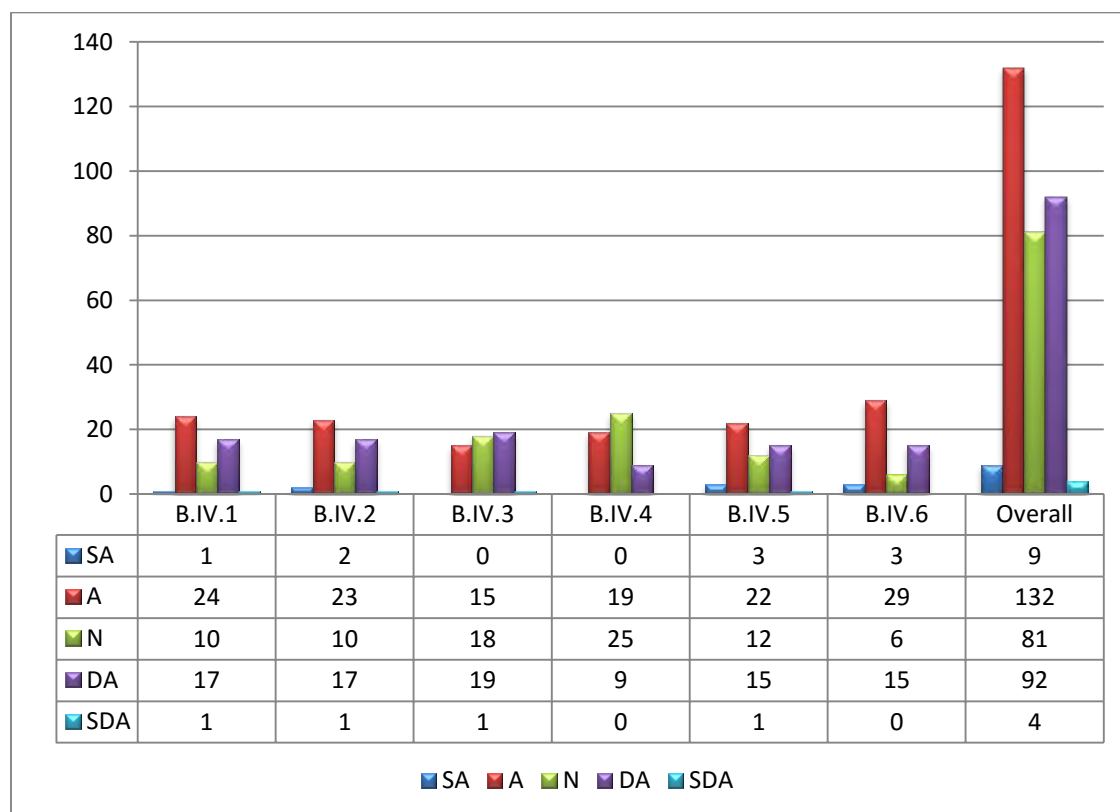


Figure 4.4 Audit Tenure and Audit Quality

4.2.5 Audit Fee and Audit Quality

The fifth part of the questions was about the relationship of audit fees and audit quality the results of the responses is summarized as follows

Table 4.10 Audit Fee and Audit Quality

Questions	SA	A	N	DA	SDA	Mean	Median
B.V.1	2	12	17	20	2	2.849	2
B.V.2	9	28	8	7	1	3.698	4
B.V.3	11	33	7	2	0	4.000	4
B.V.4	19	28	4	1	1	4.189	4
B.V.5	7	33	7	5	1	3.755	4
Overall*	16	58	43	111	37	2.642	2.6

Source: - Online Survey and Microsoft Excel

(Questions B.V.2,B.V.4 and B.V.5 are inversely recoded for overall mean and median calculation purposes only as the questions show negative relationship between audit fee and audit quality The above overall score for “SA”, “A”, “N”,”DA” and ‘SDA” and figure 4.5 is also based on the reverse scoring for both questions (appendix))

In regarding questions about audit fee and audit quality, the respondents are neutral about the association of high audit fee with high audit quality with 2.849mean for question B.V.1 (Higher audit fees are associated with higher audit quality). Rather they agree with 3.755 mean and 4 median that the auditors ability to withstand client pressure will be impaired if the auditor receives high audit fee (B.V.5). The respondents also agree that audit fee should be determined based on audit time spent (B.V.3) and competition with audit fee would impair audit quality (B.V.4). They also agree that auditors should not take more than 10% of their fees from one client.

The overall result is not in line with the research hypothesis that says “Audit Fee has a positive effect on audit quality”

In other studies audit fee was positively associated with audit quality; (Kitata, 2016), (Moraes and Martinez, 2015), (Rahmina and agoes, 2014), (Khaddash et al., 2013)

Audit fee as an important factor of audit quality has been used in several studies; specifically in examining the link between audit quality and the size(DeAngelo, 1981) as shown in the preceding paragraph high audit fee is usually associated with high audit quality. The result of the study shows that the respondents were neutral on the effect of audit fee on audit quality. Many (65%) of the Ethiopian audit firms are found in the grade C level while 15% are grade A and 20% grade B (Kitata, 2016) .Because of the rather similar nature of the firms the respondents may not that much believe that higher audit fee is associated with high audit quality. But as the economy and as well the audit industry grows this attitude may change as when firms become bigger they will start charging big audit fee in order to finance the higher cost they will have to pay for competent and qualified auditors salary and for associated cost of audit.

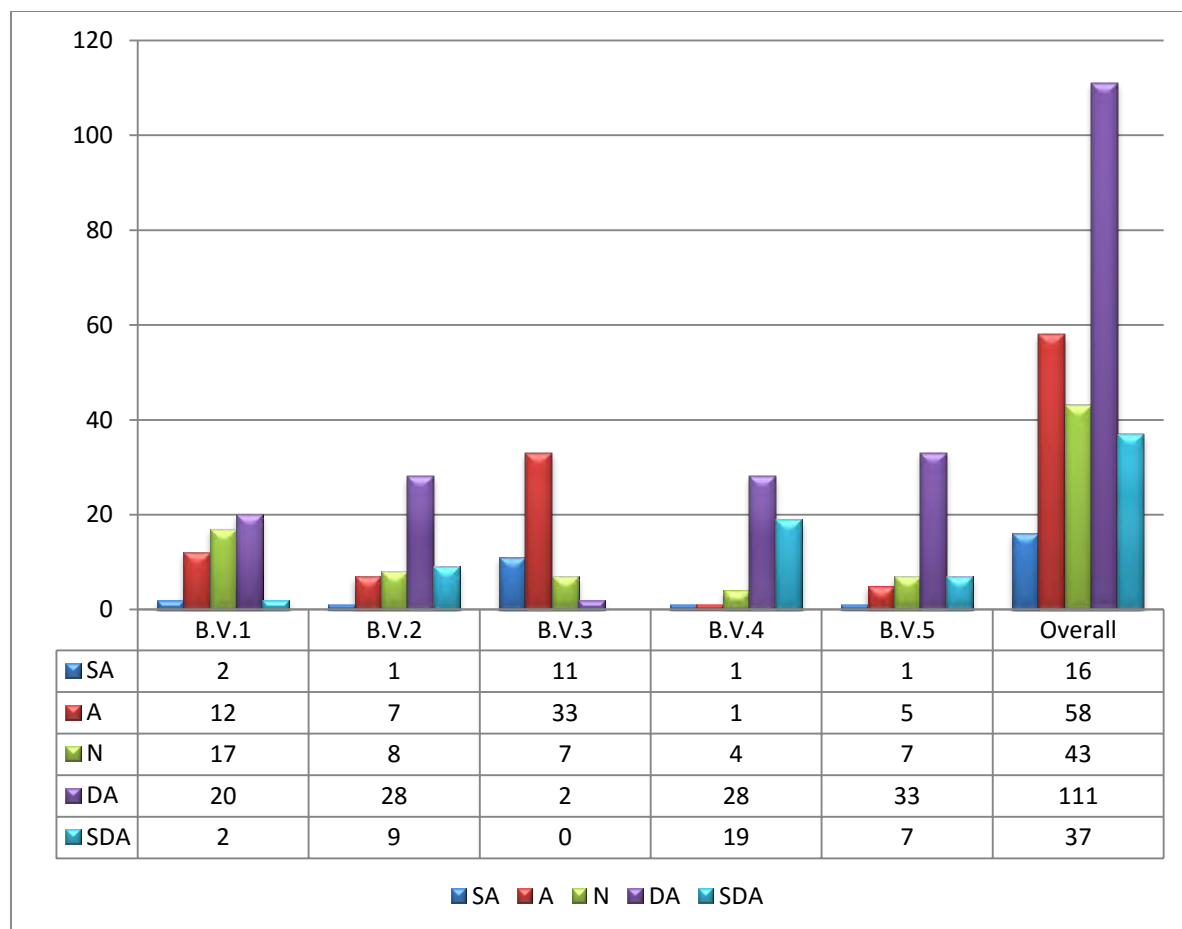


Figure 4.5 Audit Fee and Audit Quality

4.2.6 Provisions of Non Audit Services (NAS) and Audit Quality

The sixth part of the questions was about provisions of Non Audit Services (NAS) and audit quality the results of the responses is summarized as follows

Table 4.11 Provision of NonAudit Service (NAS) and Audit Quality

Questions	SA	A	N	DA	SDA	Mean	Median
B.VI.1	4	23	14	12	0	3.358	4
B.VI.2	1	44	6	2	0	3.830	4
B.VI.3	2	32	11	7	1	3.509	4
B.VI.4	0	14	12	24	3	2.698	2
B.VI.5	7	38	7	1	0	3.962	4
B.VI.6	5	36	9	3	0	3.811	4
B.VI.7	0	19	10	21	3	2.849	2
B.VI.8	4	32	5	11	1	3.509	4
Overall*						2.908	2.875

Source: - Online Survey and Microsoft Excel

(Questions B.VI.1,B.VI.5 and B.VI.6 are inversely recoded for overall mean and median calculation purposes only as the questions show negative relationship between provisions of non-audit services (NAS) and audit quality. The above overall score for “SA”, “A”, “N”,”DA” and ‘SDA” and figure 4.6 is also based on the reverse scoring for both questions (appendix))

The first three questions on provision of non-audit services and audit quality have close to 4 mean and a value of 4 for median. The results show that respondents agree that provision of non-audit services (NAS) impairs audit quality. But NAS also helps clients identifying and solving existing problems before audit and NAS increases probability of problem discovery.

At 2.698 mean and 2 for median B.VI.4 (appendix) respondents agree that high NAS fees negatively affects auditor's competence.

Both questions number B.VI.5 and B.VI.6 (appendix) gets close 4 mean and a value of 4 for median that shows that respondents agree on the assumption that auditors will be reluctant to criticize the work done by consulting division of their firms. And NAS creates an advocacy role of audit firms for their clients.

B.VI.7 (appendix) gets a close to 3 mean and a median value of 2 which shows respondents are not sure whether it's the magnitude or the nature of NAS that have more impact on audit quality.

The last question B.VI.8 (appendix) gets close to 3 mean and a value of 4 for median this shows that respondents believe the impairment of independence of auditors can be mitigated if NAS is done by separate division of an audit firm. The overall mean and median are 2.91 and 2.875 that shows the respondents are neutral on the relationship of provision of NAS and audit quality.

The overall result is not in line with the research hypothesis that says "High levels of non-audit services can decrease audit quality"

Provision of NAS becoming a concern especially after major accounting scandals including that of Enron which occurred partly because of provision of NAS by their auditors i.e. Arthur Anderson. Audit firms have traditionally provided to their audit clients a range of non-audit services that are consistent with their skills and expertise. Providing non-audit services may, however, create threats to independence. The threats created are most often self-review, self-interest and advocacy threats. The threat becomes big if auditors receive high NAS fee.

Results of studies on NAS and audit quality are usually different from country to country. Problem of NAS can be minimized if NAS can be provided by a separate division of an audit firm. In our country as many of the firms are operating under a sole proprietorship and many are

operating as Grade C auditors by the country’s standard, provision of NAS by a separate division is very unlikely.

Provision of NAS does not have effect on audit quality in the study of (Asaye, 2016) on the “impact of provision of NAS to Audit clients on auditor’s independence and audit quality”. (Leilina, 2015) found that provision of NAS with audit increases audit quality.

However another study done by ACCA in 2014 on “the drivers of audit quality views from Australian CFOs” found that athreat is posed toAudit Quality when a higher percentage of auditfees are derived from non-auditservices.

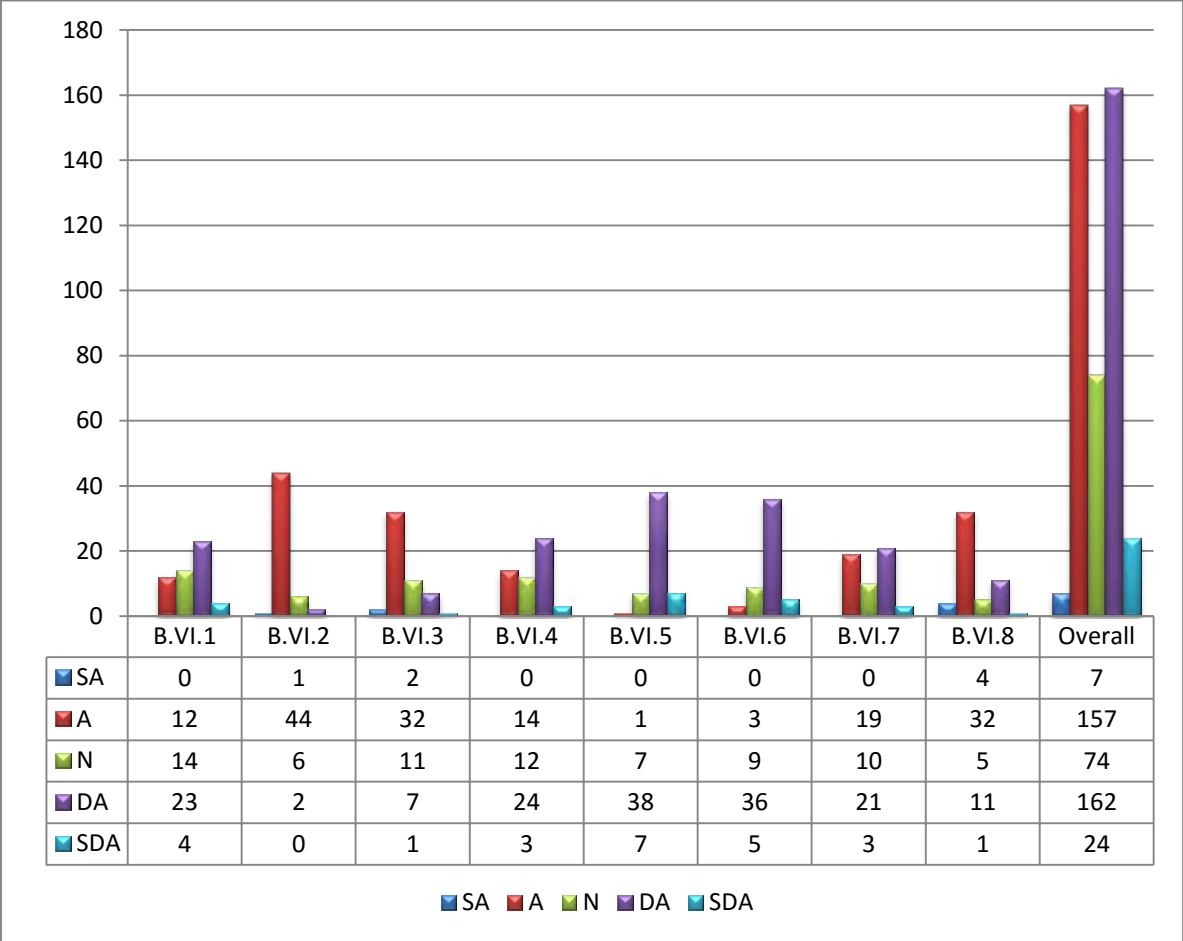


Figure 4.6 Provisions of Non Audit Services (NAS) and Audit Quality

4.2.7 Audit Reputation and Audit Quality

The seventh part of the questions was about the relationship of audit firms reputation and audit quality the results of the responses is summarized as follows

Table 4.12 Audit Reputation and AuditQuality

Questions	SA	A	N	DA	SDA	Mean	Median
B.VII.1	4	30	13	5	1	3.585	4
B.VII.2	6	35	7	5	0	3.792	4
B.VII.3	2	35	14	1	1	3.679	4
B.VII.4	4	31	10	7	1	3.566	4
B.VII.5	1	33	12	6	1	3.509	4
B.VII.6	9	33	10	1	0	3.943	4
B.VII.7	4	38	9	2	0	3.830	4
Overall	30	235	75	27	4	3.7	4

Source: - Online Survey and Microsoft Excel

The mean value for all of the 7 questions is close to 4 in the Likert scale and all of the questions have a 4 value for median.

The survey result shows that the respondents agree with the followings

- Reputed audit firms are associated with high audit quality
- They are less dependent on a single client
- They are strict in issuing their audit opinions
- Reputed audit firms increase the credibility of their client's financial statements
- They are more likely detect and report material problems
- Reputed audit firms will resist client's management pressures, and
- Companies audited by reputed audit firms are attractive for investors and creditors

The results are in line with the research hypothesis that says “• Audit Reputation has a positive effect on audit quality”

Audit firm reputation refers to the corporate image built over time by auditing firms. It may be as a result of the array of auditors the firm possesses, the brand name, the perceived audit quality resulting from little or no litigations, the fees charged etc. (Sucher et al., 1999). Firms with a reputation for credible financial reporting are likely to change auditors when their audit quality is questioned to avoid the capital market consequences of potentially unreliable financial reporting (Hennes et al., 2011). So reputed audit firms are usually associated with high audit quality.

The result of the study is in line with other studies done on the relationship of auditors' reputation and audit quality (Hosseinniakani et al., 2014) and (Al-Khaddash et al., 2013).

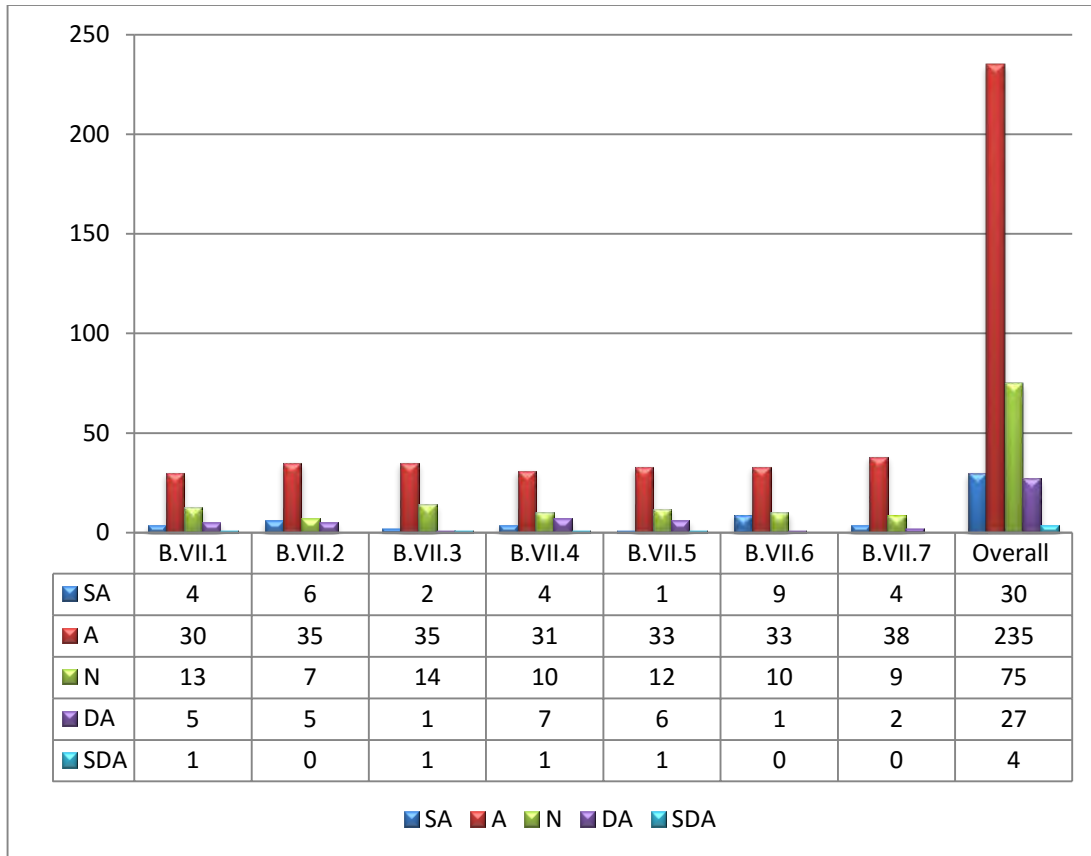


Figure 4.7 Audit Reputations and Audit Quality

4.2.8 Audit Time and Audit Quality

The last part of the questions was about the relationship of audit time and audit quality the results of the responses is summarized as follows

Table 4.13 Audit Time and Audit Quality

Questions	SA	A	N	DA	SDA	Mean	Median
B.VIII.1	13	37	2	1	0	4.170	4
B.VIII.2	1	21	13	16	2	3.057	4
B.VIII.3	2	22	14	14	1	3.189	4
B.VIII.4	3	37	6	6	1	3.660	4

B.VIII.5	4	26	12	11	0	3.434	4
Overall	23	130	47	61	4	3.502	3.6

Source: - Online Survey and Microsoft Excel

(Questions B.VII.2 and B.VII.3 are inversely recoded for overall mean and median calculation purposes only as the questions show positive relationship between tight audit time and audit quality. The above overall score for “SA”, “A”, “N”, “DA” and “SDA” and figure 4.8 is also based on the reverse scoring for both questions(appendix))

Questions B.VIII.1 (Tight audit time impairs audit quality) and BVIII4 (If audit time is too low auditors may omit parts of an audit program) has close or above 4 mean and value of 4 for median. The results show that the respondents agree that tight audit time impairs audit quality and if audit time is too low auditors may omit parts of an audit program.

Questions B.VIII.2 (With there is audit time pressure auditors work harder) and B.VIII.3 (With there is audit time pressure auditors use more efficient audit techniques) has mean of 3 and median of 4. The results show that the respondents are neutral that with audit time pressure auditors will work harder or use efficient audit techniques.

And finally question B.VIII.5 get mean of 3.434 and median of 4. The results show that the respondents agree with the fact that tight audit budget time is associated with questionable audit practices.

A well prepared audit budget is required in the audit planning stage. Benefits of a well prepared budget include the following

- Budgets provide a financial road map.
- Budgets are an effective management tool.
- Budgets can bolster revenue.
- Budgets provide an internal control

(Abdo, 2016)

The smaller audit time budget had a negative effect on auditors' competence and audit quality in the study of (Halim et al., 2014)

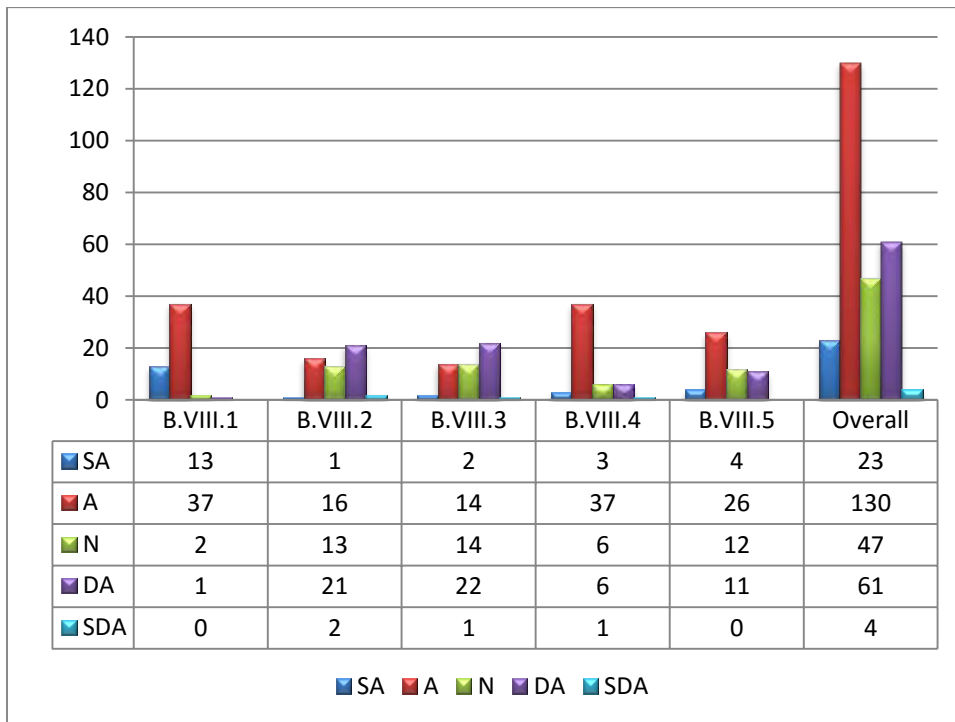


Figure 4.8 Audit Time and Audit Quality

CHAPTER 5

5. CONCLUSIONS, RECOMMENDATIONS AND FUTURE RESEARCH

DIRECTIONS

The purpose of this chapter is to conclude the whole thesis and highlight future research directions. Accordingly, the first part presents the conclusions; the second section is devoted for recommendations; Section three highlights the research limitations and finally, future research directions is presented in section four.

5.1 Conclusion

The objective of this study was to assess determinants of audit quality in Ethiopia. In order to answer the question relevant literatures was reviewed including empirical studies made on the subject matter mainly outside Ethiopia and few from Ethiopia.

Relevant questionnaires were developed base on the literatures and empirical studies on the determinants of audit quality. The questionnaires were put on Google Drive (Google Drive/Google Form) and the link is sent to the participants. The researcher believed the participants have at least an Audit Senior role. Therefore first the questionnaire is sent to all of the principals and partners of the audit firms registered under Accounting and Auditing Board of Ethiopia (AABE). The link was sent to either to the principals or partners of the 88 registered firms or one staff who has a senior and above roles in their respective firms. In total the link was sent for 88 participants. Getting 50 responses was believed by research to be enough to conduct the study as it is well above 5% of the total population. The researcher gets 53 responses for the study.

The questions were developed on the eight independent variables selected for the study namely on

- Audit Size and Audit Quality
- Audit Competence and Audit Quality
- Industry Specialization and Audit Quality
- Audit Tenure and Audit Quality
- Audit Fee and Audit Quality
- Provision of Non-Audit Services (NAS) and Audit Quality
- Reputation of Audit Firms and Audit Quality, and
- Audit Time and Audit Quality

Audit Size and Audit Quality

Six questions were asked on the relationships between audit firm size and audit quality. The results of the responses for the questions show that the respondents agree that the big audit firms are associated with higher audit quality.

Audit Competence and Audit Quality

The results of the responses for the questions show that the respondents agree that the audit competence is associated with higher audit quality

Industry Specialization and Audit Quality

The results of the responses for the questions show that the respondents agree that the industry specialization/industry expertise knowledge by auditors is associated with a higher audit quality

Audit Tenure and Audit Quality

The results of the questions on audit tenure and audit quality shows that the respondents were neutral on the effect of long audit tenure on audit quality.

Audit Fee and Audit Quality

The results of the questions on audit fee and audit quality shows that the respondents were neutral on the effect of high audit fee on audit quality. The respondents also believed that competition on audit fee will impair audit quality in Ethiopia and receiving high audit fee will impair auditor's ability to withstand client pressure.

Provision of Non Audit Services (NAS) and Audit Quality

Provision of Non Audit Services (NAS) is a major debatable topic especially as the major worldwide accounting scandals were associated with NAS. Eight questions were asked on the relationships of NAS and audit quality. Even if provision of NAS has advantages the respondents

believed that provision of NAS will impair audit quality. But they also agreed that the problem can be mitigated if NAS is done by a separate division of an audit firm.

Audit Reputation and Audit Quality

The results of the responses for the questions show that the respondents agree that reputed audit firms are associated with higher audit quality.

Audit Time and Audit Quality

The results of the responses for the questions show that respondents agree that tight audit time is negatively associated with audit quality.

5.2 Recommendations

- Big audit firms are associated with higher audit quality. In Ethiopia there are now 88 registered firms under AABE a quite number of them are newly registered small firms owned by a principal. In order to increase audit quality instead of having many small firms it's better to have few big firms to get the required quality audit.
- Auditor's competence will bring a higher audit quality. So audit firms in Ethiopia should focus in enhancing the competence of their staff by giving sufficient training especially for newly recruited before commencing audit work.
- Industry specialization/industry expertise knowledge is associated with high audit quality. Therefore audit firms either should focus on industry level or should allocate a group of staff to a certain industry in order to achieve high level of audit quality.
- Provision of Non Audit Services (NAS) will impair audit quality. They also agree that the problem can be minimized if a separate division works the NAS. This issue is a debatable subject especially after the major accounting scandals happened because of NAS. Therefore the researchers recommendations is there should be limitations on the maximum level of NAS fee audit firms can receive, NAS should not be done by the audit

section of an audit firm but rather by other divisions like consulting section or division, companies should simply be prohibited from obtaining any services from the auditor that would impair the auditor's independence, either in fact or appearance.

- Reputed audit firms are associated with higher audit quality therefore audit firms should work hard to gain reputation.
- Tight audit time is associated negatively with audit quality. Therefore audit firms should prepare a reasonable audit time budget on planning of audit. If they get themselves forced to work with a very tight time they should avoid the particular audit work

5.4 Research Directions

Enough studies are not done on determinants of audit quality especially by using many independent variables. The researcher believes the study will be an input for further studies on determinants of audit quality in Ethiopia

References

John W. Best and James V. Khan, 1977, *Research in Education 3rd edition*

Linda Elizabeth DeANGELO, 1981, *Auditor size and audit quality*. Journal of Accounting and Economics 3 (1981) 183-199

Donald R. Deis, Jr. and Gary A. Giroux., 1992, *Determinants of Audit Quality in the Public Sector*. The Accounting Review, Vol. 67, No. 3 pp. 462-479

Sucher, P., Moizer, P., & Zarova, M., 1999, *The images of the Big Six audit firms in the Czech Republic*, The European Accounting Review, 8(3), 499-521.

Lindberg, D.L., 2001, *Discussion of the demand for auditor reputation across international markets for audit services* The International Journal of Accounting, 36(4), 429-432

C. R. Kothari., 2004,*Research Methodology Methods & Techniques Second Edition* New Age International Publishers Limited.

Maria Teresa Siniscalco& Nadia Auriat,2005,*Quantitative research methods in educational planning*, UNESCO International Institute for Educational Planning

ZulkarnainMuhamadSori and Yusuf Karbhari, 2006,*Auditor Reputation and Auditor Independence in an Emerging Market*SSRN Electronic Journal

LEE Teck-Heang&Azham Md. Ali, 2008,*The evolution of auditing: An analysis of the historical development*. Journal of Modern Accounting and Auditing, ISSN1548-6583, USA

Lukas Beyashe, 2008,*Challenges Faced by Ethiopian Federal Government Auditors:the Case of the Office of the Federal Auditor General* Master's Thesis, Addis Ababa University

Ali Mansouri, Reza Pirayesh and Mahdi Salehi, 2009,*Audit Competence and Audit Quality: Case in Emerging Economy*. International Journal of Business and Management Vol. 4, No. 2

Abbas Ali Pouraghajan, 2009,*Non-Audit Services Rendered by Auditors: ACase Study of Iranian Corporate Sector*

RohamiShafie; Wan Nordin Wan Hussin; Mohd 'Atef Md. Yusof; and MdHairiMdHussain, 2009,*Audit Firm Tenure and Auditor Reporting Quality: Evidence in Malaysia*. International Business Research Vol.2, No. 2

Mark S, Philip L, & Adrian T, 2009,*Research Methods for Business Students Fifth Edition* Pearson Education Limited

Advanced Auditing and Assurance Study Text, 2009, Strathmore University Press, Nairobi Kenya

Mark Saunders, Philip Lewis and Adrian Thornhill, 2009,*Research Methods for Business Students Fifth edition*

Mahdi SALEHI and SaeidJabarzadehKANGARLOUEI, 2010,*An Investigation of the Effect of Audit Quality on Accrual Reliability of Listed Companies on Tehran Stock Exchange.*

Review of International Comparative Management. Volume 11, Issue 5 PP. 940-960.

SemiuBabatundeAdeyemi and TemitopeOlamideFagbemi, 2010,*Audit Quality, Corporate Governance and Firm Characteristics in Nigeria.* International Journal of Business and Management Vol. 5, No. 5

Hennes, K. M., A. J. Leone, and B. P. Miller ,2011,*Accounting Restatements and Auditor Accountability Working paper*, The University of Oklahoma, University of Miami, and Indiana University.

S. Manikandan, 2011,*Measures of Central Tendency: the mean, median and mode*

Habib, 2011,*Audit firm industry specialization and audit outcomes: Insights from academic literature*

AmsaluGelaneh, 2011,*The Impact of Extended Audit Tenure on Auditors Independence and Audit Quality: An Empirical Study on Ethiopian private audit firms*, Addis Ababa University.

Sylvia Veronica Siregar, FitrianyAmarullah, ArieWibowo and ViskaAnggraita, 2012,*Audit Tenure, Auditor Rotation, and Audit Quality: The Case of Indonesia.* Asian Journal of Business and Accounting, 5(1), 2012, 55-74

Paul Eric Byrnes, Abdullah Al-Awadhi,Benita Gullvist, Helen Brown-Liburd, Ryan Teeter, J. Donald Warren, Jr. and MiklosVasarhelyi ,2012,*Evolution of Auditing: From the Traditional Approach to the Future Audit* AICPA Assurance Services Executive Committee (ASEC) Emerging Assurance Technologies Task Force, 2012.

EkoSuyono, 2012,*Determinant Factors Affecting the Audit Quality: An Indonesian Perspective.* Global Review of Accounting and Finance Vol. 3. No. 2. Pp. 42 – 57.

Mehmet ÜnsalMemiş and EminHüseyinÇetenak, 2012. *Earnings Management, Audit Quality and Legal Environment: An International Comparison.* International Journal of Economics and Financial Issues, Vol. 2, No. 4, pp.460-469.

SemiuBabatunde ADEYEMI, Okwy OKPALA and Eyesan Leslie DABOR, 2012,*Factors Affecting Audit Quality in Nigeria*. International Journal of Business and Social Science, Vol. 3 No. 20 [Special Issue]

Astrid Rudyanto and IrwantoHandojo, 2013,*Men Auditor, Women Auditor and Audit Quality*. JurnalBisnis Dan Akuntansi Vol. 15, No. 2.

Husam Al-Khaddash,RanaAl Nawas and Abdulhadi Ramadan, 2013,*Factors affecting the quality of Auditing: The Case of Jordanian Commercial Banks*. International Journal of Business and Social Science Vol. 4 No. 11.

NedalSawan and IhabAlsaqqa, 2013,*Audit firm size and quality: Does audit firm size influence audit quality in the Libyan oil industry?* African Journal of Business Management Vol. 7(3), pp. 213-226,

Dr. Augustine O. Enofe, Dr. Augustine O. Enofe, AdeyemiAderin and Obehioye U. Ehi-Oshio, 2013,*Determinants of Audit Quality in the Nigerian Business Environment*. Research Journal of Finance and Accounting Vol.4, No.4.

HamidehDaneshmandiBafqi, MahmoodMoeinAddin and Abbas AlaviRad, 2013,*The Relationship between Auditor's Characteristics and Audit Quality*. Interdisciplinary Journal of Contemporary Research in Business, Vol. 5, No. 3.

Caleb Newquist, 2013,*the Big 4's Stranglehold on the Audit Market Is Worse Than You Thought*

Darius Singpurwala, 2013, *A handbook of Statistics: An overview of Statistical Methods 1st edition*

Seyed Mahmoud HOSSEINNI AKANI, Helena INÁCIO, and RuiMOTA, 2014,*A Review on Audit Quality Factors*. International Journal of Academic Research in Accounting, Finance and Management Sciences Vol. 4, No.2, pp. 243–254

IlaboyaOfuanJames and Ohiokha Friday Izien, 2014,*Audit firm characteristics and audit quality in Nigeria*. International Journal of Business and Economics Research 2014; 3(5): PP 187-195

Nedal Sawan I and Khaled Hamuda I, 2014, *Do the Big 4 and the Second-Tier Firms Provide Audits of Similar Independence?* Canadian Center of Science and Education Vol. 10, No. 6; 2014; PP161-175

Abdul Halim, Sutrisno T, Rosidi and M. Achsin, 2014, *Effect of Competence and Auditor Independence on Audit Quality with Audit Time Budget and Professional Commitment as a Moderation Variable*. International Journal of Business and Management Invention, Volume 3, Issue 6, PP. 64-74.

Listya Yuniastuti Rahmina and Sukrisno Agoes, 2014, *Influence of auditor independence, audit tenure, and audit fee on audit quality of members of capital market accountant forum in Indonesia*. International Conference on Accounting Studies 2014, ICAS 2014, 18-19 August 2014, Kuala Lumpur, Malaysia

Alan Kilgore; Nonna Martinov-Bennie; Sue Wright, 2014, *The drivers of audit quality: views from Australian CFOs*. © The Association of Chartered Certified Accountants April 2014

Tamrat Afesha, 2014, *Audit Fees Determinants and Audit Quality in Ethiopian Commercial Banks*, Addis Ababa University.

Bethitina Leilina, 2015, *The determinants of external audit quality evidence from manufacturing share companies of Addis Ababa Ethiopia*, Addis Ababa University.

Yonas Fekede, 2015, *The Current Status of Professional Ethics and Independence of Private Audit Firms Engaged in Ethiopia and Its Overall Impact on Audit Quality*, Addis Ababa University.

ARQUIMEDES DE JESUS MORAES and ANTONIO LOPO MARTINEZ, 2015, *Audit Fees and Audit Quality in Brazil*. Contabilidade e Controladoria no Seculo XXI

Ejigsew Asaye, 2016, *The Impact of Provision of NAS to Audit client on Auditors Independency and Audit Quality*, Addis Ababa University.

Solomon Kitata, 2016, *Factors affecting quality of External Auditing: The case of Ethiopian Commercial Banks*, Addis Ababa University.

Jack Abdo, CPA, 2016, *4 Benefits of a Well-Prepared Budget* AbdoElick & Meyers llp

International Standard on Auditing 200: overall *objectives of the independent auditor and the conduct of an audit in accordance with international standards on auditing*

The International Ethics Standards Board for Accountants (IESBA) of Ethics for Professional Accountants

The IAASB (International Auditing and Assurance Standards Board) *A Framework for Audit Quality*, 2013

The IASB (International Accounting Standards Board) *Framework for the Preparation and Presentation of Financial Statements*, 2001

Proclamation No. 68/1997 of the Federal Democratic Republic of Ethiopia, A
Proclamation to Establish the Office of the Federal Auditor General

Regulation no. 4/2010 Regulation for the issuance of certificate of professional competence to private auditors and accountants

Proclamation No. 847/2014 of the Federal Democratic Republic of Ethiopia, Financial Reporting Proclamation

Appendix



Bayou Tsegaw, MSC student

Addis Ababa University

Faculty of Business and Economics

Department of Accounting and Finance

Auditors Perception of Audit Quality in Ethiopia

August, 2016 Dear,

Sir/Madam

The enclosed questionnaire aims at exploring information regarding assessment of audit quality in Ethiopia. The response will be used for part of the data needed for the study of —**Auditors Perception of Audit Quality in Ethiopia**. The result of the study is expected to contribute the understanding of the assessment of audit quality in Ethiopia. Therefore, I believe you will assist the completion of the study by participating.

The questionnaire includes all the directions necessary to complete the response without assistance. Since the success of this study depends on the cooperation of all targeted respondents, the information that will be obtained from the questionnaire will not identify individual respondents in the study. Hence, your response will be used in aggregate. I would also like to assure you that the information you provide will be accessible only to the undersigned researcher only.

Your honest and thoughtful response is invaluable.

N.B. This questionnaire has a total of 10 pages including this page.

Thank you for your participation.

Kind regards,

Beyou Tsegaw

A. Section I – General Question

1. *Your qualification (Please tick the appropriate one. you can tick more than one)*

Diploma	Bachelor's Degree	Master's Degree	ACCA	CPA	CIMA	CIA	Other

2. *Your current position*

Senior Auditor	Deputy Audit Manager	Audit Manager	Senior Audit Manager	Principal/Partner

3. *Years of Experience in External Audit*

Less than a year	2 to 5 years	5 to 10 years	More than 10 years

B. Section II – Closed ended questions

I. Audit Size and Audit Quality

Auditor Size is measured by number of clients an audit firm has. What is your opinion about the effect of audit size on audit quality? (Please tick; the appropriate box which matches your view most closely as Strongly Agree (SA), Agree (A), Neutral (N), Disagree (D) and Strongly Disagree (SD) respectively).

Sl. No.	Statements	SA	A	N	D	SD
1	Large auditing firms are more likely to detect and report material problems.					
2	Large auditing firms improve the credibility of the financial statements.					
3	Larger auditing firms are less willing to acquiesce to client pressure to allow					

	substandard reporting.					
4	Larger auditing firms tend to be stricter in issuing opinions					
5	Auditing firms with smaller clients are lenient and easy going in the report favorable retain clients.					
6	Large audit firm are associated with high accurateforecasts than were smaller accounting firms.					

II. Audit Competence and Audit Quality

Auditor Competence is having the knowledge and skills required for a particular task or function and the ability to apply them. What is your opinion about the effect of audit competence on audit quality? (Please tick; the appropriate box which matches your view most closely as Strongly Agree (SA), Agree (A), Neutral (N), Disagree (D) and Strongly Disagree (SD) respectively).

Sl. No.	Statements	SA	A	N	D	SD
1	It will be easier for Competent auditors to detect, understand faults accurately and find the cause of errors					
2	Competent auditors have the ability to withstand client pressures					

3	Audit competency is associated with respecting confidentiality of information acquired during audit					
4	Competent auditors will comply with relevant laws and regulations					

III. Industry Specialization and Audit Quality

Industry specialization is the experience of an audit firm to a particular industry. What is your opinion about the effect of auditor's industry specialization on audit quality? (Please tick; the appropriate box which matches your view most closely as Strongly Agree (SA), Agree (A), Neutral (N), Disagree (D) and Strongly Disagree (SD) respectively).

Sl. No.	Statements	SA	A	N	D	SD
1	Industry specialization has an effect on higher level of auditing quality.					
2	Industry expertise knowledge enhances the likelihood that auditors discover errors					
3	Industry specialization is associated with fewer violations of reporting standards such as IFRS, GAAP					

4	Industry specialization leads to less accounting restatements					
5	Industry specialization results in potential disputes with clients					
6	Industry specialization results in reduction of independence and objectivity of the audit firm					

IV. Audit Tenure and Audit Quality

Audit tenure is the number of years an audit firm audits a client. What is your opinion about the effect of audit tenure on audit quality? (Please tick; the appropriate box which matches your view most closely as Strongly Agree (SA), Agree (A), Neutral (N), Disagree (D) and Strongly Disagree (SD) respectively).

Sl. No.	Statements	SA	A	N	D	SD
1	Audit partner with long tenure are less likely to issue a going concern modified opinion to their financially distressed clients.					
2	The likelihood of receiving a substandard quality audit increases with the length of the auditor client relationship.					

3	Auditors are more willing to issue an unclean report in the last year of the official mandate than in previous years.					
4	Audit firms receive more litigation in the beginning of their audit than their later years					
5	The risk of an audit failure is higher in the early years of an audit tenure period because the new public accounting firm is more likely to place heavy reliance on information provided by client management					
6	The risk of an audit failure is likely to increase as the audit tenure period increases due to client management becoming too familiar with the auditor's approach and procedures.					

V. Audit Fee and Audit Quality

What is your opinion about the effect of audit fee on audit quality? (Please tick; the appropriate box which matches your view most closely as Strongly Agree (SA), Agree (A), Neutral (N), Disagree (D) and Strongly Disagree (SD) respectively).

Sl. No.	Statements	SA	A	N	D	SD
1	Higher audit fees are associated with higher audit quality					
2	An audit firm should not get more than 10 % of its audit fee income from one client					
3	Audit fee should be determined based the audit time of audit staff					

4	Competition between audit firms on audit fee will affect audit quality					
5	An auditor's ability to withstand client pressure will be impaired if he/she receives high audit fee from the client					

VI. Non Audit Service (NAS) and Audit Quality

Auditors may provide Non Audit Service (NAS) to their clients. What is your opinion about the effect of NAS on audit quality? (Please tick; the appropriate box which matches your view most closely as Strongly Agree (SA), Agree (A), Neutral (N), Disagree (D) and Strongly Disagree (SD) respectively).

Sl. No.	Statements		SA	A	N	D	SD
1	Provision of NON AUDIT SERVICES to an audit client impairs audit quality						
2	NON AUDIT SERVICES may have helped the client to resolve problems existed before the audit.						
3	Provision of NON AUDIT SERVICES						

	increases the probability of problem discovery.						
4	High NON AUDIT SERVICES fees do not affect the auditor competence.						
5	Auditor may be reluctant to criticize the work done by their consulting division.						
6	NON AUDIT SERVICES creates a client advocacy role for the auditor.						
7	Impact of NON AUDIT SERVICES on audit quality can depend on the magnitude of NON AUDIT SERVICES rather than the type of NON AUDIT SERVICES.						
8	Concerns will be reduced on independence impairment when a separate division of the audit firm does NON AUDIT SERVICES.						

VII. Audit Reputation and Audit Quality

What is your opinion about the effect of auditor's reputation on audit quality? (Please tick; the appropriate box which matches your view most closely as Strongly Agree (SA), Agree (A), Neutral (N), Disagree (D) and Strongly Disagree (SD) respectively).

Sl. No.	Statements	SA	A	N	D	SD
1	Reputed audit firms are associated with higher audit quality					
2	Reputed audit firms less dependent on a given company-client than a small one					
3	Reputed audit firms tend to be stricter in					

	issuing opinions					
4	Reputed audit firms improve the credibility of the financial statements.					
5	Reputed audit firms are more likely to detect and report material problems.					
6	Companies audited by reputed audit firms are more attractive to investors and creditors					
7	Reputed audit firms are better able to resist management pressure in conflict situations					

VIII. Audit Time and Audit Quality

Audit time budget is firm budget time because of limited resources allocated to implement auditing. What is your opinion about the effect of audit time on audit quality? (Please tick; the appropriate box which matches your view most closely as Strongly Agree (SA), Agree (A), Neutral (N), Disagree (D) and Strongly Disagree (SD) respectively).

Sl. No.	Statements	SA	A	N	D	SD
1	Tight audit time impairs audit quality					
2	With there is audit time pressure auditors work harder					

3	With there is audit time pressure auditors use more efficient audit techniques					
4	If audit time is too low auditors may omit parts of an audit program					
5	Tight audit time is associated with questionable audit practices					