The determinants of external audit quality: A case study of Ethiopian audit firms

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Statement of Declaration

I, Tensae Nebiye, declare that this thesis is my own work and that, to the best of my knowledge and belief, it contains no material previously published or written by another person, except where due acknowledgement has been made in the text. I confirm that no part of the material presented in this thesis has previously been submitted by me or any other person for a degree in this or any other institution.

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This is to certify that the thesis entitled, "The determinants of external audit quality: A case study of Ethiopian audit firms" was carried out by Tensae Nebiye under the supervision of Ato Gebremedin Gebrehiwot submitted in partial fulfillment of the requirements for the degree of Master of Science in Accounting and Finance complies with the regulations of the University and meets the accepted standards with respect to originality and quality.

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Abstract

The aim of this study is to assess the determinant factors affecting external audit quality in Ethiopian audit firms. Namely independence, audit experience, accountability, audit fee, firm size and regulation. In light of this objective the study adopted quantitative method of research approaches to test a series research hypothesis. Specifically, the study used primary data through close ended questionnaires. From the total population of ninety eight external audit firms licensed and registered in Accounting and Auditing Board of Ethiopia (AABE), fifty two audit firms are selected based on convenience sampling and one hundred four questionnaires are distributed. Two questionnaires are distributed for each firms. The questionnaires are answered by principal/partners and or employed auditors in senior audit position. The results of multiple regression reveal that independence, experience, accountability and regulation are statistically significant factors influencing the variation in audit quality in the Ethiopian external audit firms. The audit fee is significant on 10% significant level whereas, audit firm size is not significant factor that has little or no impact on the audit quality of the Ethiopian external audit firms as it is not significant even at 10% significance level. Therefore, this is a clear signal to audit firms, professional associations and the Accounting and Auditing Board of Ethiopia (AABE) not to ignore the key determinant factors of independence, experience, accountability and regulation identified by this study.

Keywords: external audit quality, independence, audit experience, accountability, audit fee, firm size and regulation.

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List of Acronyms

AABE	Accounting and Auditing Board of Ethiopia
ACCA	Association of Chartered Certified Accountants
AICPA	American Institute of Certified Public Accountants
ASE	Accounting Society of Ethiopia
BLUE	best linear unbiased estimators
CPA	Certified Public Accountant
CSA	Chinese Accounting Standards
DW	Durbin Watson
EEAA	Ethiopian External Auditors Association
EPAAA	Ethiopian Professional Association of Accountants and Auditors
FASB	Financial Accounting Standards Board
FRC	Financial Reporting Council
IAASB	International Auditing and Assurance Standards Board
ICAEW	Institute of Chartered Accountants in England and Wales
ICAS	Institute of Chartered Accountants of Scotland
IFAC	International Federation of Accountants
IFRS	International Financial Reporting Standards
ISA	International Standards on Auditing
OFAG	Office of the Federal Auditor General
OLS	ordinary least square
SEC	Securities and Exchange Commission
SPSS	Statistical Package for Social Sciences
TQM	Total quality management
UK	United Kingdom
USA	United States of America

Chapter One

Introduction

The term "audit" comes from the Latin word meaning "a hearing". Auditing originated over 2,000 years ago when, first in Egypt, subsequently in Greece, Rome and elsewhere, citizens (or, sometimes, slaves) entrusted with the collection and disbursement of public funds were required to present themselves publicly, before a responsible official (an auditor), to give an oral account of their handling of those funds (Porter et al., 2014).

The development of Auditing during the advent of the industrial revolution (period of 1844 – 1920s) was centered in the UK. Because of the emergence of large scale industrial and commercial enterprises and the displacement of individual joint ventures by continuing corporation, the UK joint stock company act was passed in 1844. Following the provision of the act, companies were required to comply certain regulations; for example submission of balance sheet to the shareholders setting out the state of affairs of the company, and the appointment of auditor by the shareholders. The auditor, who was usually appointed from the shareholders, required to examine the company's records at reasonable time intervals throughout the year and report to the company's shareholders whether the balance sheet gave a 'full and fair' view of the company state of affairs (Porter et al., 2014).

The growth of the US economy in the 1920s-1960s had caused a shift of auditing development from the UK to the USA. In the years of recovery following the 1929 Wall Street Crash and ensuing depression, investment in business entities grew rapidly. Meanwhile, the advancement of the securities markets and credit-granting institutions had also facilitated the development of the capital market in this period. As companies grew in size, the separation of the ownership and management functions became more evident. Hence to ensure that funds continued to flow from investors to companies, and the financial markets function smoothly, there is a need to convince the participants in the financial markets that the company's financial statement provided a true and fair portrayal of the relevant company's financial position and performance (Porter et al., 2014).

The world economy continued to grow in the 1960s-1990s. This period marked an important development in technological advancement and the size and complexity of the companies. Auditors in the 1970s played an important role in enhancing the credibility of financial information and furthering the operations of an effective capital market (Porter et al., 2014). Present-day auditing has developed into new processes that build on a business risk perspective of their clients. The business risk approach rests on the notion that a broad range of the client's business risks are relevant to the audit. Advocates of the business risk approach opined that many business risks, if not controlled, will eventually affect the financial statement. Furthermore by understanding the full range of risks in businesses, the auditor will be in a better position to identify matters of significance and relevance to the audit profession on a timely basis (Teck-Heang & Ali, 2008).

The Ethiopian auditing practice has been started through government auditing dates back the early 1931 constitution, which stressed the importance of the proper collection of the state revenue and the necessity of procedures to control expenditures but stopped short of either referring to or requiring any audit as such. This, in fact, had to wait for proclamation 69 of 1944, which established the Commission for Audit which was largely responsible for the examination and control of the accounts of the Ministry of Finance and was directly accountable to the Prime Minister. Articles 120 and 121 of the revised constitution of 1955 clearly conferred the rights and duties of auditing all ministries, departments, and agencies to the Auditor General, whose office was then established as a separate, independent entity that reported directly to the Emperor and to the Parliament (Beyashe, 2008).

According to ISA 200, the purpose of an audit is to enhance the degree of confidence of intended users in the financial statements. This is achieved by the expression of an opinion by the auditor on whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework (Kaplan Publishing UK, 2015).

Audit quality is normally related to the ability of the auditor to identify material misstatement in the financial statements and their willingness to issue an appropriate and unbiased audit report based on the audit result (Suseno, 2013).

As international accounting standards acquired more authority, logic dictated a set of international auditing standards collateral to them. Auditing standards were required by

multinational corporations that wanted consistent auditing throughout the world. With a set of international standards adopted for the world, international investors can be more confident in financial statements prepared in another country. The nondomestic auditor's opinion will lend as much credibility as a domestic auditor's opinion. In the Peoples' Republic of China, Chinese Accounting Standards (CAS) are becoming more and more in line with IFRS. While CAS are needed for specific Chinese circumstances, convergence with IFRS is seen as equally important to reach international harmonization (Usman, 2016).

1.1. Statement of the problem

External auditors are independent firms that are engaged by the client in order to form an opinion whether the audited financial statements are free of material misstatements, whether due to fraud or error. In some cases, external auditors may also be required to express an opinion over the effectiveness of internal controls over financial reporting. External auditors may also be engaged to perform other agreed-upon procedures, related or unrelated to financial statements. On doing so, the quality of auditor's report help the stakeholders to make the right decision. However the accounting scandals in the history of world impair the stakeholders trust on the audited financial statements. This is the main motivation for the researcher to undertake research on the determinants of external audit quality.

Although there are some improvements in the Ethiopian audit industry from the World Bank (2007) report, the following are still challenges of the Ethiopian audit industry; these are:

- There is no accounting Professional Association who can issue professional certification or regulate the profession and have legal backing.
- There is no accounting Professional Association who is member of the International Federation of Accountants (IFAC).
- There is no quality review of auditors' work.
- There is no local professional accountancy qualification.

Besides the above mentioned challenges, the improvements are also in an early stage and their fruit has not yet been enjoyed. These issues brings the quality concern on the researcher and motivated to make research for the Ethiopian external audit industry.

The prior studies to the best knowledge of the researcher on the determinants of external audit quality in the Ethiopian circumstance were analyzed by using proxies and focus on limited factors of the audit quality. Although there are studies in other country perspectives, they used few variables. In order to fill the gap and draw relevant conclusion, the researcher used up to date primary data, analysis the effect of variables individually and collectively and using more variables compared to previous studies.

1.2. Research objective

1.2.1. General objective

The major objective of this study is to assess determinant of external audit quality in Ethiopia. Based on specific determinant factors that are found to significantly influence audit quality in prior studies.

1.2.2. Specific objective

The specific objectives of the study are evaluating the factors of independence, audit experience, accountability, audit fee, firm size and regulation and assess their impact on audit quality. Identifying the significant factor is also the specific objective of the study.

1.3. Research hypothesis

The study is conducted based on the following six testable research hypothesis which were derived from the literature review.

H_1: There is significant positive relationship between independence and audit quality.

H_2: There is significant positive relationship between experience and audit quality.

H_3: There is significant positive relationship between accountability and audit quality.

H_4: There is significant positive relationship between audit fee and audit quality.

H_5: There is significant positive relationship between firm size and audit quality.

H_6: There is significant positive relationship between regulation and audit quality.

1.4. Significance of the study

The significance of this study would include the following:

First, as it is explained in the review of the literature part studies made so far in Ethiopia with the objective of identifying the factors that determine external audit quality are very limited and there is no research on determinants of external audit quality by using primary data and quantitative approach. As a result, this study makes a number of contributions towards other researchers as a source of reference and as a stepping stone for those who want to furnish further insights into prevailing determinant factors that affect external audit quality in developing countries context particularly in Ethiopia.

Secondly, as Lam and Chang (1998) suggested knowledge of determinants of audit quality should be of interest and importance to suppliers and users of the audit services as well as the regulators.

Accordingly, the study identifies contextual factors that augment or inhibit external audit quality and draw some conclusions; this would assist the auditors to understand those identified factors affecting the external audit quality.

Finally, the study will highlight major findings of the study in order to increase the understanding of stakeholders including the regulators, accounting professional association, practitioners and academicians.

1.5. Scope and limitations of the study

The research has its own scope and limitations as it is presented below.

1.5.1 Scope of the study

It is important to define the boundaries of this study such that the readers will be aware of the direction to which this study is heading. The study is mainly focus on determinants of external audit quality. Despite that the topic of the study is delimited to examining determinant factors affecting the external audit quality that are frequently described in conventional auditing studies and literatures. However, the increasing use of the word auditors in this study is only

referring to external auditors not internal auditors. This is because the scopes of function for external and internal auditors are different in nature.

1.5.2 Limitations of the study

The results of the study may suffer from some limitation. First, this paper examines only six determinant factors (namely: independence, audit experience, accountability, audit fee, firm size and regulation) that affect external audit quality. However, the effect of other variables that could have impact on determining the external audit quality will not give due consideration in this study.

Despite the above probable limitations, the researcher will exert maximum effort to design the research as properly as possible and to achieve the specified objectives.

1.6. Structure of the study

The paper is organized into five chapters. The first chapter deals with introduction of the study. The literature review part of the study is presented in chapter two. The review of the literature includes the theoretical review in its first section which is followed by the review of the previous studies related to the area and conclusion and knowledge gap finally. Chapter three presents the research design and methodology. This is followed by an analysis of the results and discussion part of the paper concurrently in chapter four. Finally, chapter five presents the conclusions and recommendations.

Chapter Two

Literature review

2.1 Theoretical review

The theoretical framework is the first section for the chapter. This chapter elaborates different theoretical explanations and overviews related to the determinants factors of external audit quality. In order to link different theories with this study, the researcher used different theoretical issues from different authors.

2.1.1. Purpose of an audit

The purpose of an audit as per ISA 200 is to enhance the degree of confidence of intended users in the financial statements. This is achieved by the expression of an opinion by the auditor on whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework. In the case of most general purpose frameworks, that opinion is on whether the financial statements are presented fairly, in all material respects, or give a true and fair view in accordance with the framework. An audit conducted in accordance with ISAs and relevant ethical requirements enables the auditor to form that opinion (Kaplan Publishing UK, 2015).

Audits examine products, processes, and systems with respect to predetermined standards. Within this context, audits evaluate one or more of the following: the adequacy of the documentation, adherence to the documented and undocumented procedures, implementation and maintenance of the procedures, and the effectiveness of the procedures as implemented to accomplish intended objectives. Adequacy is defined as "the state of being sufficient for a specified requirement." An audit evaluation for adequacy usually consists of reviews to verify the sufficiency of documentation for defining work and of records as evidence of satisfactory work completion. This typically includes a review to see if the document is legible, understandable, and can be reasonably implemented. Adequacy alone, however, does not verify whether work was performed correctly unless it is evaluated in conjunction with

compliance/ conformance or the implementation and maintenance of the documented system. Compliance refers to the affirmative indication or judgment that the supplier of products or services has met the requirements of the relevant specifications, contract, or regulation. In auditing, the terms conformity and compliance may be used interchangeably to report the results. However, regulated industries tend to favor the use of the terms compliance and noncompliance. In the international conformity assessment program, the terms conformity and nonconformity are normally used. The term compliance audit is also used to indicate that the purpose of an audit is to determine the degree of compliance to rules and regulations (Russell, 2013).

During performing their work, auditors may be risk averse and being conscious of their potential liability, introduce risk management processes that result in limitations in the scope of their work and caveats in their reports which principals may find frustrating. Auditor independence from the board of directors is of great importance to shareholders and is seen as a key factor in helping to deliver audit quality. However, an audit necessitates a close working relationship with the board of directors of a company. The fostering of this close relationship has led (and continues to lead) shareholders to question the perceived and actual independence of auditors and to demand tougher controls and standards over independence to protect them. As far as independence and objectivity are concerned, auditors need to be conscious of threats to objectivity and apply suitable safeguards where necessary. Reputation is a key factor in promoting trust and auditor independence is an important quality that shareholders look for. Auditors have an important incentive to maintain independence to protect their reputation and thereby help them to retain and win audits (The Institute of Chartered Accountatnt of England and Wales, 2005).

2.1.2. Audit quality

Quality has been defined as fitness for use, conformance to requirements, and the pursuit of excellence. Even though the concept of quality has existed from early times, the study and definition of quality have been given prominence only in the last century. Following the industrial revolution and the rise of mass production, it became important in the 1920s to better define and control the quality of products. Originally, the goal of quality was to ensure that

engineering requirements were met in final products. Later, as manufacturing processes became more complex, quality developed into a discipline for controlling process variation as a means of producing quality products. In the 1950s, the quality profession expanded to include the quality assurance and quality audit functions. The drivers of independent verification of quality were primarily industries in which public health and safety were paramount. In the 1980s, businesses realized that quality wasn't just the domain of products and manufacturing processes. Total quality management (TQM) principles were developed to include all processes in a company, including management functions and service sectors. Simply stated, quality is meeting customer requirements. Others prefer to describe quality in terms of achieving customer satisfaction. Another description of quality that takes into account the customer and the provider of the product or service is "Quality for the customer is getting what you were expecting and quality for the provider (supplier) is getting it right the first time. A system of quality management includes all activities of the overall management function that determine the quality policy, objectives, and responsibilities and their implementation. A management system provides the means of establishing a policy and objectives and the means to achieve those objectives (Russell, 2005).

DeAngelo (1981, pp. 14)) defines audit quality as "the market-assessed joint probability that a given auditor will both discover a breach in the client's accounting system, and report the breach to the third parties." This definition contains two aspects of audit quality:

1. The probability to detect misstatements depends on the auditor competence, experience, procedure employed on a given audit, the extent of sampling, and auditor audit technology and
2. The independence of the auditor, how independent is the auditor from the client to report such misstatements.

2.1.3. Regulatory frameworks on audit quality

2.1.3.1. IAASB Framework on Audit Quality

As research on audit quality is still unsatisfying, some non-academic institutions set up different frameworks. The latest framework (still in draft), an international one, have been conceived by the International Auditing and Assurance Standards Board (IAASB). In an overall approach IAASB considered all possible influences of audit quality which are

categorized as: (1) Inputs, (2) Outputs, (3) interactions amongst key stakeholders and (4) contextual factors.

The IAASB drafted the first version of its framework in a whitepaper in January 2011. The whitepaper states that "there have been a number of attempts to define audit quality in the past; however, none of those definitions has achieved a universal recognition and acceptance.

"Audit quality is, in essence, a complex and multi-faceted concept." After several IAASB sessions, a sketch of the framework was developed capturing the relationships between the elements: context, inputs, outputs, and interactions.
Inputs are categorized into three groups: "(a) the values, ethics and attitudes of individual auditors, (b) the knowledge and experience of auditors and the time allocated for them to perform the audit; and (c) the effectiveness of the audit process and quality control procedures."

Outputs are "often determined by the context, including legislative requirements" and can be influenced by stakeholders; "for some companies' stakeholders, the auditor's report is the primary output and this is relatively standardized." Interactions amongst key stakeholders include "both formal and informal communications", which will be influenced by the context in which the audit is performed and allow a dynamic relationship to exist between inputs and outputs" elements of the framework. The contextual factors include "corporate government requirements and the applicable financial reporting framework" as well as "legislative and regulatory requirements", which also "shape the interactions amongst key stakeholder."

2.1.3.2. UK Financial Reporting Council's Framework on Audit Quality

A similar framework was set up five years earlier by the UK Financial Reporting Council.
The Financial Reporting Council identified four main drivers for audit quality:

1. The culture within an audit firm;
2. The skills and personal qualities of audit partners and staff;
3. The effectiveness of the audit process; and
4. The reliability and usefulness of audit reporting.

The focus in both frameworks (the UK FRC and the IAASB one) is on a process view of auditing where inputs are combined efficiently in order reach a certain outcome (assurance level), embedded in a specific contextual environment.

On a content view, the UK Financial Reporting Council covers the same elements and attributes like the IAASB does. However, the IAASB framework on audit quality is more comprehensive and detailed. Hence, the FRC's framework on national level will probably be obsolete soon and replaced by the pending international one from the IAASB.

2.1.4. Regulation of auditors

The accounting and auditing profession varies in structure from country to country. In some countries accountants and auditors are subject to strict legislative regulation, while in others the profession is allowed to regulate itself. for example.

A. Ethiopia

Subsequent to the proclamation number 847/2014, the Ethiopian accounting and audit industry is managed and regulated by the Accounting and Auditing Board of Ethiopia. Before the legislation it was managed and regulated by the Office of the Federal Auditor General (OFAG) under proclamation number 68/1997.

Unlike other countries, the Ethiopian Professional Accounting Associations are not professional certification or regulation and also do not have legal backing and are not member of the International Federation of Accountants (World Bank, 2007).

B. United Kingdom

In the UK there are a number of different accountancy, or accountancy-related, institutes and associations, such as the Association of Chartered Certified Accountants (ACCA), the Institute of Chartered Accountants in England and Wales (ICAEW) and the Institute of Chartered Accountants of Scotland (ICAS). All these bodies vary from each other but they are all characterized by various attributes (BPP Learning Media Ltd, 2014):

- Stringent entrance requirements (examinations and practical experience)
- Strict code of ethics
- Technical updating of members

C. France

In France, the accounting profession is split into two distinct organizations:

- Accountants
- Auditors

Most members of the auditors' organization are also members of the more important accountants' organization. Examinations, work experience and articles are similar to those of the UK accountancy bodies. The profession's main influence is through the issue of non-mandatory opinions and recommendations of accounting principles relevant to the implementation of the National Plan (BPP Learning Media Ltd, 2014).

D. Germany

The main professional body in Germany is the Institute of Certified Public Accountants. Members of this institute carry out all the statutory audits, and are required to have very high educational qualifications and experience. The Institute issues a form of auditing standard but this is tied very closely to legislation. As well as auditing, members are mainly involved in tax and business management, with no obvious significant role in establishing financial accounting principles and practices. There is no independent accounting standard-setting body (BPP Learning Media Ltd, 2014).

E. USA

In America, accountants are members of the American Institute of Certified Public Accountants (AICPA), a private sector body. Although the Securities and Exchange Commission in the USA can prescribe accounting standards for listed companies, it relies on the Financial Accounting Standards Board (FASB), an independent body, to set such standards. In turn, FASB keeps in close contact with the AICPA, which issues guidance on US standards and is closely involved in their development (BPP Learning Media Ltd, 2014).

F. Ghana

In Ghana, the Institute of Chartered Accountants (Ghana), established in 1963, is the sole body charged with the regulation of the accountancy profession. Its members are the only persons recognized under the country's companies' legislation to carry out the audit of company financial statements. The institute is governed by a council of 11 chartered accountants (BPP Learning Media Ltd, 2014).

2.1.5. Underpinning theories of external audit quality

2.1.5.1. Role of auditor and agency theory

An agency relationship arises when one or more principals (e.g. an owner) engage another person as their agent (or steward) to perform a service on their behalf. Performance of this service results in the delegation of some decision-making authority to the agent. This delegation of responsibility by the principal and the resulting division of labor are helpful in promoting an efficient and productive economy. However, such delegation also means that the principal needs to place trust in an agent to act in the principal's best interests (The Institute of Chartered Accountatnt of England and Wales, 2005).

2.1.5.2. Auditors as agents

If as simple agency theory implies, principals do not trust agents to provide them with reliable and relevant information, then they will hire in external experts, who are independent of these agents. This, however, introduces the concept of auditors as agents of principals, which leads to new concerns about trust, threats to objectivity and independence. Auditors act as agents to principals when performing an audit and this relationship therefore brings with it similar concerns with regard to trust and confidence as the director-shareholder relationship, prompting questions about who is auditing the auditor. Agents (whether they are directors or auditors) may be trustworthy without a need for further incentives to align interests or monitoring mechanisms such as audit or increased regulation. However, the simple agency model would suggest that agents are untrustworthy. Like directors, auditors will have their own interests and motives to consider (The Institute of Chartered Accountatnt of England and Wales, 2005).

The one of principal-agent relationship dealt with by corporate governance guidelines is that of the company with its auditors. The conflict of interests between principal (shareholder) and agent (director) gives rise to the 'principal-agent problem' which is the key area of corporate governance focus. The principals need to find ways of ensuring that their agents act in their ('the principals') interests. As a result of several high profile corporate collapses, caused by over-dominant or 'fat cat' directors, there has been a very active debate about the power of boards of directors, and how stakeholders (not just shareholders) can seek to ensure that directors do not abuse their powers. Various reports have been published, and legislation has been enacted, in the UK and the US, which seek to improve the control that stakeholders can exercise over the board of directors of the company. The audit is seen as a key component of corporate governance, providing an independent review of the financial position of the organization. Auditors act as agents to principals (shareholders) when performing an audit and this relationship brings similar concerns with regard to trust and confidence as the director-shareholder relationship. Like directors, auditors will have their own interests and motives to consider. Auditor independence from the board of directors is of great importance to shareholders and is seen as a key factor in helping to deliver audit quality. However, an audit necessitates a close working relationship with the board of directors of a company. This close relationship has led (and continues to lead) shareholders to question the perceived and actual independence of auditors so tougher controls and standards have been introduced to protect them (Kaplan Publishing UK, 2015).

2.1.5.3. Stakeholder theory

Stakeholders are any person or group that can affect or be affected by the policies or activities of an organization. The basis for stakeholder theory is that companies are so large and their impact on society so pervasive that they should discharge accountability to many more sectors of society than solely their shareholders.

Stakeholder theory may be the necessary outcome of agency theory given that there is a business case in considering the needs of stakeholders through improved customer perception, employee motivation, supplier stability, shareholder conscience investment (Kaplan Publishing UK, 2015).

Stakeholder theory explains the relationship between organizations and their external environment (Freeman 1984). A stakeholder is defined as a human agency that can have an impact or affect organizations (Gray et al. 1996). Stakeholders represent the big umbrella for all individuals and parties that may have a direct or indirect interest in an organization.

Direct stakeholders are shareholders, employees, investors, customers and suppliers whose interests are aligned with the company. An example of an indirect stakeholder is the government, which is indirectly affected by the company's function (Kiel and Nicholson 2003). Due to this role of stockholders, organizations are not only accountable to shareholders only but also to stakeholders. As a result of this accountable relationship, many factors and conditions exist to maintain and manage the stakeholder-organizations relationship.

Stakeholder theory is an extension of the agency view, which is believed to better equip managers to articulate the shared purposes of their firm and board of directors to look after the interests of shareholders. However, this narrow focus on shareholders has been expanded to take into account the interests of many different stakeholder groups, including interest groups related to social, environmental and ethical considerations (Freeman 1984; Donaldson and Preston 1995; Freeman et al. 2004). Stakeholders' theory views external audit as effective monitoring systems that could protect all stakeholders' interests. Mattingly et al. (2009). Moreover, in terms of audit quality, Baker and Owsen (2002) suggest that the role of external auditor as monitoring mechanisms is not only directed for shareholders' benefit, but also for the interests of all stakeholders.

2.1.5.4. Stewardship (Monitoring) theory

Stewardship theory outlines a co-operative and optimistic view of relationships within the corporation by assuming that managers are good stewards and do not misappropriate corporate resources; their behavior is also conditioned by non-financial motives such as the need for recognition of their achievements and performance (Vanden et al. 2004). Thus the directors' role is to counsel and advice rather than to monitor.

Stewardship theory is based on agency theory (Jensen and Meckling 1976): the separation of ownership and control motivates the owners to incur costs to monitor the activity of the

managers. One of these controls is the hiring of an external auditor who certifies the accuracy of the financial information provided by the managers.

Therefore, the stewardship (monitoring) theory considers external auditing as a mechanism that can contribute to control the conflict of interests among firm managers, shareholders and other external claimholders by enhancing the credibility of publicly reported financial information (Chow 1982). Stewardship theory considers the external auditors as an instrument of assistance to a steward chief executive officers rather than a controlling mechanism (Hay and Davis 2004). This will be achieved by the quality audit work.

2.1.5.5. Institutional theory

The concept of institutionalization is related to organizations actions over time. Such actions are said to be legitimated within an organization and environment (Pfeffer 1982).

Institutional theory suggests that internal operating processes loosely coupled with the observable structures accomplish the real work of an organization.

As a result, organizations with the appropriate structures in place will avoid deep investigations of their function by external auditors (Meyer and Rowan 1977). Organizations are subject to rules and regulations to which they must conform in order to ensure their legitimacy and thus have access to resources and ensure their survival (DiMaggio and Powell 1983). However, these rules and regulations don't necessarily guarantee that organizations will continue to operate efficiently (Meyer and Rowan 1977; Scott 2008).

Different factors play role in deriving organizations behavior from a legitimate behavioral point of view. Some factors are industry common practices, organizations' history, cultural values, management philosophy and folklore (Eisenhardt 1988).

The choice made by individuals is constrained by the force of moral pressures and the cake of custom in strengthening the social order (Scott 2008).

Institutional elements comprise the institutions and over time the institutional elements are given priority. The key point is to identify what institutional elements reinforce or undercut other elements (Scott 2008). Functional pressure, political pressure and social sources are three possible factors that cause pressure on institutional common practices (Oliver 1991).

As mentioned above, the choice made by individuals is limited to moral pressure faced (Scott 2008). Also there are different kinds of pressures (functional, political, social sources) that affect institutional common practices (Oliver 1991).

The institutional theory deals with factors affecting organizations within a social environment. External auditors behavior is assessed in relation to audit firm professional practices rather than social and political factors. Moreover, their behavior is analyzed against different kind of pressures that are embedded within an audit firm rather than factors and sources found within an institutional context.

2.1.5.6. Signaling theory

Signaling theory covers the information asymmetry area and voluntary selection of auditors (Morris 1987). The signaling theory helps in reducing information asymmetry. This reduction happens by a party disclosing information and signaling it to others.

Historically, the signaling theory has been established and related to the labor market, but it can be applied to any market having information asymmetry problems. A simple example about the signaling theory would be as follows: a seller is perceived to have a good quality product, and buyers have no specific information but only a general perception that the seller's product has good quality. Buyers in this case are ready to pay more for a product that they perceive to have a better quality.

It is the role of the seller to communicate and send signals to buyers about their good quality products. When sellers manage to create quality signals, buyers will consider all other sellers to have poor quality products (Morris 1987).

The above explanation of the signaling theory is tailored to fit the use of such theory in the concept of audit quality. As mentioned, the core of signaling theory is about information asymmetry that includes appointment of external auditors as a tool to manage the information asymmetry problem. Big size audit firms are known to provide better audit quality compared with other audit firms.

The higher the perception of audit quality the more clients and corporations are ready to pay more for big size audit firms to audit their financial statements. Due to this fact that companies

and organizations are willing to pay more to big size audit firms; audit fees are said to be a signaling factor for a better audit quality (Leilina, 2015).

2.1.6. Lowballing

Problems can arise when auditing firms appear to be charging a fee level that is unsustainably low, or at least less than the 'market rate' for the audit. The practice of undercutting, usually at tender for the audit of large companies, has been called lowballing. In other cases, the audit fee has been reduced even though the auditors have remained the same. The problem here is that, if the audit is being performed for less than it is actually worth, then the auditors' independence is called into question (BPP Learning Media Ltd, 2016).

2.1.7. Determinants of external audit quality

2.1.7.1. Auditor independence

An auditor needs a public trust when doing his/her tasks, particularly when providing audit service to his/her clients. It is very important for the users of financial statement to presume the auditor from a public accounting firm is an independent party having adequate experience and good accountability. This will affect the users' perception about the quality of the audit service (Suyono, 2012).

The value of audited financial statement rests on the assumption that the auditors are independent of their clients (Gul 1989). (Mauiz & Sharaf, 1961) argue the need for giving attention for the two main aspects of independence so as to develop useful concept, namely practitioner-independence and profession-independence.

The meaning of practitioner-independence seems clear. It has to do with the ability of the individual practitioner to maintain the proper attitude in the planning of his audit program, the performance of his verification work and the preparation of his report. Profession-independence has to do with the image of auditors as a group brought to mind when the term

"auditor" or CPA is used. How does the public think of auditors: as thoroughly independent professional men or as hired employees like bookkeepers and payroll clerks? It is not enough to claim that the image of the profession is made up of the real-life actions of its practitioners. To many people who have never had direct acquaintance with independent auditors, the term still has meaning, a meaning which they have gained from what they have read, from the impression various forms of mass communication media have made upon them, and from the ideas passed on to them by various opinion leaders. There are many people who, although they know an individual auditor and think highly of him, may well have quite another impression of the profession. When the time comes for them to rely on the work of unknown auditors. It is their general impression that will govern. Thus we feel that serious consideration of the subject of profession-independence is in order (Mauiz & Sharaf, 1961).

Based on the above aspects of independence, (Mauiz & Sharaf, 1961) presents the three dimensions of independence as follows:

1. Programming Independence: Freedom from control or undue influence in the selection of audit techniques and procedures and in the extent of their application. This requires that the auditor have freedom to develop his own program. Both as to steps to be included and the amount of work to be performed within the overall bounds of the engagement.

2. Investigative Independence: Freedom from control or undue influence in the selection of areas, activities, personal relationships, and managerial policies to be examined. This requires that no legitimate source of information be closed to the auditor.

3. Reporting Independence: Freedom from control or undue influence in the statement of facts revealed by the examination or in the expression of recommendations or opinions as a result of the examination. The relationship of reporting to the examination has been neatly expressed in the following: You tell us what to do and we'll tell you what we can write in our report: you tell us what you want us to say in our report and we'll tell you what we have to do.

Within the bounds of the above three dimensions, developments of guides or clues which indicate whether there has been any infringement on independence for the guidance of the practitioner has been presented below.

a) Programming Independence

1. Freedom from managerial interference or friction intended to eliminate, specify, or modify any portion of the audit.

2. Freedom from interference with or an unco-operative attitude respecting the application of selected procedures.

3. Freedom from any outside attempts to subject the audit work to review other than that provided for in the audit process.

b) Investigative Independence

1. Direct and free access to all company books, records, officers and employees, and other sources of Information with respect to business activities, obligations, and resources.

2. Active co-operation from managerial personnel during the course of the auditor's examination.

3. Freedom from any managerial attempt to assign or specify the activities to be examined, or to establish the acceptability of evidential matter.

4. Freedom from personal Interests or relationships leading to exclusion from or limitation of the examination of any activity record or person that otherwise would have been included in the audit (Mauiz & Sharaf, 1961).

c) Reporting Independence

1. Freedom from any feeling of loyalty or obligation to modify the Impact of reported facts on any party.

2. Avoidance of the practice of excluding significant matters from the formal report in favor of their inclusion in an Informal report of any kind.
3. Avoidance of intentional or unintentional use of ambiguous language in the statement of facts, opinions, and recommendations and in their interpretation.
4. Freedom from any attempt to overrule the auditor's Judgment as to appropriate content of the audit report, either factual matter or his opinion.

Tepalagul & Lin (2014) organize their review around four main threats to auditor independence, namely, client importance, non-audit services, auditor tenure, and client affiliation with audit firms. For each of the threats the findings related to the incentives, perceptions, and behaviors of the auditor and the client, as well as the effects of each threat on the actual and perceived quality of audits and financial reports. They conclude that the mixed evidence, together with recent regulatory changes, provides opportunities for future research on auditor independence and audit quality.

2.1.7.2. Audit fee

According to De Angelo (1981), the definition of audit fees is as follows: "Audit fee is one of the factors that Affect audit quality by considering several factors in the audit assignment, such as: the size of the client company (Client size), the complexity faced by auditors audit services (Audit complexity), the risk faced by auditors of audit clients (Audit risk), famous Free public accounting firm that performs audit services (The Eighth big auditor)

Audit firms that are more independent tend to compete to offer personalized services that add value to the client, and can charge higher fees for better quality services (Francis, 1984). Hence, it is not enough for the auditor to have expertise, it also must be independent (Deangelo, 1981; Watts & Zimmerman, 1986).

2.1.7.3. Firm size

The newly established governing body of the auditing profession, the accounting and auditing board of Ethiopia, does not issue criteria for grading of audit firms. Moreover, it has not also

officially cancelled or accept the former grading of audit firms, which was made by the office of the federal auditor general.

Before the issuance of proclamation to establish AABE in 2014, the audit firm size had been assessed and approved by the office of the federal auditor general. To help the process to be objective, there were set of organized criteria called private audit firms grading evaluation criteria.

The criteria gave the highest weight of 60% for human resource and the remaining 40% for overall firm structure. In order to achieve the stated marks in both parts there were detail criteria.

Based on the cumulative result those scores more than 75% would be leveled as grade A, those score between 50% to 75% would be grade B and those score below 50% would be grade C (the former criteria issued by OFAG is attached in annex 3 for further understanding).

2.1.7.4. Regulation

Legal regimes affecting auditors consist of liability rules and damage measures. Liability rules determine whether an auditor is liable for the damages incurred by plaintiffs/investors; damage measures determine the amount that the plaintiffs/investors can recover from an auditor found liable (Schwartz, 1997).

A wrong audit can cause damages to shareholders in secondary markets or to buyers of firms or shares in primary markets. This happens especially if outside investors base their decision on the audit and buy overpriced company shares. Liability of auditors is liability for pure economic loss. The legal forms of auditor's liability and of liability of experts in general differ widely across countries. Under tort law most legal orders restrict or even exclude liability for pure financial loss. In contract law pure economic losses are generally compensated in case of simple negligence. In some legal orders the plaintiff can base his claim either on tort law or on contract law or on both. Some countries (Germany) have a broad scope of (implicit) contract law, which covers case groups, which in other countries (Britain) are treated under tort law. If

damages caused by a wrong audit are recoverable under an implied contract between auditor and shareholder, the auditor is usually liable for simple negligence. In that case he has negligently violated a contractual duty to the shareholder, even though the explicit contract was between him and the corporation. If however, these damages are only recoverable under tort law, simple negligence will not lead to compensation because they are pure economic losses and because most legal orders restrict or exclude liability for pure economic loss in tort. However, this literature remains silent with respect to the borderline between contract law and tort law. There is general agreement that pure economic loss has to be compensated under contract law as the cost of this protection is internalized in the contract (Schäfer, 2004).

Auditor´s liability leads to a compensation of pure financial loss. It has been argued in the law and economics literature that the restriction of damage compensation in such cases is justified, as in this group of cases private losses of claimants are higher than the social losses. Compensation therefore might lead to overcompensation and over deterrence. Overcompensation of the victims leads to over deterrence of the auditors, if the level of care for auditing is not strictly defined and only known as a probability distribution. However, over deterrence can be reduced or even eliminated, if the liability for negligence is relaxed to a lower level such as gross negligence. It is also argued that this solution should be restricted to the activity of auditors in secondary markets, such as audit of the yearly balance sheet. A shareholder who operates in such a market has in general no willingness to pay for an auditing effort, which is higher than the optimal effort for a well-functioning capital market. If however the audit is exclusively made for the primary market (IPO or selling a firm) the level of care of the auditor should reflect the potential private losses and be higher than in secondary markets. Simple negligence should trigger liability. Here the buyers' willingness to pay for his protection is higher than in the secondary market. Consequently, liability should be stricter. One way of obtaining this result could be to extend contractual liability (Schäfer, 2004).

2.2 Empirical studies on the determinants of external audit quality

The relationship between audit fees and audit quality in the Brazilian market was studied by Antonio Lopo Martinez to respond to the research question. He used a sample of 300 firms listed on the BM & FBovespa, in the period from 2009 to 2012, for which it was possible to identify the amount paid to the auditors, using data gathered from the Economática database and the website of the Brazilian Securities Commission (CVM). He analyzed the regressions with the aim of confirming or refuting the hypothesis that audit firms that charge less for their service tend to be more relaxed regarding earnings management by their client companies. The results confirm this hypothesis. The main contribution of the article was the possibility of stating that abnormal audit fees were related to abnormal discretionary accruals in the Brazilian capital market, or put another way, more aggressive earnings management occurs predominantly among firms that pay less than expected for audit services. The study evidenced the perception of risk by the audit firms and how reflected in the abnormal fees charged (Antonio Lopo, 2015).

Suseno (2013) did an empirical analysis of auditor independence and Audit fees on audit quality. He applied explanatory research and used primary data of questionnaires and interviews. His sample was made on 73 public accountant offices which are the members of the Forum of Capital Market Accountants in Indonesia. Suseno (2013) concluded that both auditor independence and audit fee have significant influence towards audit quality. And thus reflects that the auditor has an absolute attitude that needs to be maintained, which is independence. Such attitude keeps the auditor in the right track in performing their practices and maintaining an image as a group that carries the people's trust to enhance the credibility of financial reports produced by companies. In terms of audit fees, optimal audit fees provide audit quality reassurance since the auditing procedures require a long period of time and highly experienced and skilled staff. Thus, in order to produce high quality audit requires efforts both from the public auditor and optimal audit fees (Suseno, 2013).

Suyono (2012) made research on the determinant factors affecting the audit quality. He considers factors of independence, experience, and accountability. And defines Independence as the main basis of public trust in the public accountant profession and it is one of the factors to evaluate the quality of audit service, Experience as one's skill which is obtained by working

regularly and accountability as a social psychological motive that makes someone try to be responsible for all their actions and decisions for the environment. His research is conducted in 28 Public Accounting Firms in Central Java and Jogjakarta provinces, Indonesia with around 150 auditors. The study tested the hypothesis that independence, experience and accountability affect audit quality. The study support that the independence and accountability affect audit quality and reject that experience affects audit quality. And also the result showed that:

- Independence, experience and accountability affected audit quality simultaneously;
- Independence and accountability affected audit quality partially, meanwhile experience did not affect audit quality partially and
- Accountability was the dominant factor affecting audit quality (Suyono, 2012)

Halim, Sutrisno, & Achsin researched on the Effect of Competence and Auditor Independence on Audit Quality with Audit Time Budget and Professional Commitment as a Moderation Variable in 2014 by aiming to address three important issues. These are:

- To test effect of auditors' competence and independence on audit quality.
- To test whether audit time budget could moderate effect of auditors' competence and independence on audit quality.
- To test whether the professional commitment moderate effect of auditor's competence and independence on audit quality.

The analysis units of their study were 918 public accountants in Indonesia in. Data were collected by sending questionnaires. Analytical technique used was Partial Least Square (PLS). The test result proved that first, auditor's competence and independence positively affect audit quality. It means the higher auditor's competence and independence, the higher audit quality. Second, audit time budget weaken effect of auditor's competence and independence on audit quality. It means the smaller audit time budget, the greater effect of auditor's competence and independence on audit quality. Third, professional commitment strengthens effect of auditor's competence and independence on audit quality. It means the stronger professional commitment, the higher effect of auditor's competence and independence on audit quality (Halim, Sutrisno, & Achsin, 2014).

Asmara (2016) studied on the effects of competence and motivation of Auditor to audit quality on external auditor registered as public accounting firm in Jakarta, Indonesia. According to the study the competence of auditors provide 7.8% effect on audit quality if other variables were not considered. While the influence of Competence of Auditors had indirect relationship to audit quality as the relationship with the Auditors Motivation were 6.6%. The influence of Auditors Competence to audit quality were 14.4%. The impact of Motivation of Auditors on audit quality were also 27.1% if other variables were not considered. While the influence of Auditors motivation had indirect relationship to audit quality as the relationship with the Auditors Competence was 6.6% (Asmara, 2016).

The study conducted by Omidfar & Moradi (2015) is to provide evidences regarding the audit industry expertise as one of the criteria of audit quality. The relation between audit industry expertise and auditor's type of opinion was studied using the financial information extracted from listed companies in Tehran Stock Exchange during 2004 - 2012. The result showed that there was a positive and significant relation between audit industry expertise and auditor's qualified opinions. The obtained evidences support the idea that audit firm specialization could lead to improved quality of financial information of the capital market (Omidfar & Moradi, 2015).

The study intended to examine the impact of auditors' characteristics including auditor tenure and expertise on the audit quality. Discretionary accruals estimated by the modified Jones model had been used to determine the audit quality. The population was composed of the whole non-financial firms listed on the Tehran Stock Exchange. The sample firms include 91 listed firms covering a period from 2007 to 2011 which are selected by using filtering technique. To test the hypotheses, the multivariate regression models based on panel data approach were utilized. The findings were indicated that there was no significant relationship between auditors tenure and audit quality. Instead, the significant association between audit expertise and audit quality was confirmed (Bafqi, Addin, & Rad, 2013).

Francis & Yu (2009) studied on the audit firm size and audit quality. Larger offices of Big 4 auditors are predicted to have higher quality audits for SEC registrants due to greater in-house experience in administering such audits. Tests, whether larger offices of Big 4 auditors are predicted to have higher quality audits for SEC registrants due to greater in-house experience in administering or not, this prediction by examining a sample of 6,568 U.S. firm-year observations for the period 2003-2005 and audited by 285 unique Big 4 offices. Results are consistent with larger offices providing higher quality audits. Specifically, larger offices are more likely to issue going-concern audit reports, and clients in larger offices evidence less aggressive earnings management behavior. These findings are robust to extensive controls for client risk factors and to controls for other auditor characteristics. While the evidence suggests audit quality is higher on average in larger Big 4 offices, however, they make no claims that audit quality is unacceptably low in smaller offices (Francis & Yu, 2009).

The relationship between earnings management-audit quality and earnings management-legal system quality by using 1507 firms' observations from listed companies in private firms across different 8 emerging countries was studied by Memiş & Çetenak in 2012. Their result confirms that the efficiency of the legal system helps to decrease earnings management incentives (Memiş & Çetenak, 2012).

2.3 Conclusions and knowledge gap

Audit quality has been the focus of theoretical and empirical auditing research. Even though a plenty of studies investigated the determinants of audit quality in different countries. There is a lack of empirical evidence from the developing countries context like Ethiopia. Only a limited studies had been conducted in the area from developing countries as far as the researcher knowledge is concerned. Prior researches have documented inconsistent results on the evidence of the linkage between audit quality and its determinant factors. Let's see the shortfall of studies and elaborate the relevance of this research.

From the other countries similar topic researchers, Suyono (2012) studied on the determinant factors affecting the audit quality. In the study only three variables of independence, experience,

and accountability were analyzed. The study used primary data obtained by questionnaire and regressed it to analyze the variables scientifically.
The main shortfalls of the study are the variables analyzed are very few and also the data had been collected from the central Java and Jogiakarta provinces of Indonesia. Hence it might not represent the Ethiopian audit environment.

In the context of Ethiopia, the related study conducted by Gelaneh (2011) assessed the impact of extended audit tenure on auditors independence and audit quality in the capital city of Ethiopia. Accordingly, this study clearly failed to identify most of the factors that affect audit quality significantly as far as its main focus was an assessment of the impact of extended and short audit tenure on auditors' independence and audit quality in Ethiopia.
That means the study clearly fails to fill the knowledge gap that exists in the area as far as it considers only one variable for audit quality measurement and ignores other audit firm related variables affecting external audit quality.

The other study of Leilina (2015) was conducted on the determinants of external audit quality evidence from manufacturing share companies of Addis Ababa. The study mainly focus on the proxies of discretionary accruals based on the audit specific attributes and focused on the manufacturing share companies. Therefore the study fails to fill the knowledge gap on the general audit quality issues emerged from the audit firm specific factors.

The other study was conducted recently by Kitata (2016). He studied on the factors affecting quality of external auditing: the case of Ethiopian commercial banks.
The study focused on identification of the determinants of audit quality in Ethiopian banking institutions. Using the practice of earnings management as a proxy for audit quality, more specifically, the discretionary accruals related to the process of the constitution of the Loan Loss Provision (LLP) – tests.

Researches in this area are very useful in giving an insight for both audit firms and company stakeholders as to knowing the determinant factors affecting audit quality. They are also helpful for the regulatory and professional bodies to properly monitor the external audit

profession and to maintain trust among the various stakeholders. Therefore; it would be worthwhile to ask the audit firm related attributes that are considered to be the determinant factors affecting external audit quality in Ethiopia. The determinant factors has not been analyzed and presented on their significance by using regression analysis for the Ethiopian audit industry. Thus, this paper aimed to fill the gap and tried to contribute areas of attention of the external audit firms, the accounting professional associations and Accounting and Auditing Board of Ethiopia (AABE).

Chapter Three
Research Methodology

This chapter discusses the processes and techniques used in carrying out the study. It also gives a description of the respondents including information on the study population, the number of respondents and how they were selected. It also provides an outline of research design and the instruments for data collection. The methods adopted in the administration of the research instrument, data collection procedure, data analysis and measures used to ensure validity of the instrument used.

3.1 Research Design

The general objective of this study is to examine the determinants of external audit quality in Ethiopia. This study adopted a quantitative research approach by using a primary data source. Quantitative approach uses statistical methods in describing patterns of behavior and generalizing findings from samples to population of interest, and employs strategies of inquiry such as experiments and surveys (Creswell, 2014). In order to answer the statement of the problem and meet the research objectives. All of the data were analyzed and explained using the descriptive method. Descriptive research studies are those studies which are concerned with describing the characteristics of a particular individual, or of a group.

The main characteristic of this method is that the researcher has no control over the variables; he can only report what has happened or what is happening (Kothari, 2004). Explanatory designs try to establish cause-and-effect relationships. The primary purpose of explanatory research design is to determine how events occur and which ones may influence particular outcomes (Dawson R. & Bob, 2006). Explanatory studies are characterized by research hypotheses that specify the nature and direction of the relationships between or among variables being studied. Therefore, this study used both descriptive and explanatory method in order to explain the determinants of external audit quality in Ethiopia.

The study used structured questionnaire as the primary data collection instrument to gather information.

3.2 Population and Sampling

3.2.1 Target Population

In research methods, population is the entire aggregation of items from which samples can be drawn. In Ethiopia there are one hundred eighteen licensed auditors practicing in ninety eight audit firms including state owned audit Service Corporation. These auditors are practicing the audit profession by creating individual firm or by forming partnership firm. Therefore, in this study, the target population is all ninety eight external audit firms licensed and registered in Accounting and Auditing Board of Ethiopia (AABE).

3.2.2 Sample Design and Size

Particularly, the researcher selected fifty two audit firms from the total population of ninety eight audit firms by using convenience sampling to distribute one hundred four questionnaires. Two questionnaires are distributed for each firms. The questionnaires are answered by principal/partners and or employed auditors in senior audit position. The data obtained from the respondents are very representative and reasonable to draw conclusion.

3.3 Model Specification

Hair et.al (2005) argued that for analyzing the relationship between one dependent variable and several independent variables multiple regressions analysis can be applied. Hence, multiple regression analysis is an appropriate way to check the relationships between independent variables and dependent variable in this study. The literature reviewed in the previous chapter identified the main determinants of external audit quality and a model that would help to investigate the relationship of the main factors and audit quality.

The linear multiple regression line based on previous model designed by Kabir (2013) is modified using the variables from the above conceptual framework and is stated as follows:

$Y = a + b_1X_1 + b_2X_2 + b_3X_3 + b_4X_4 + b_5X_5 + b_6X_6 + e$

Where,

Y	=	audit quality
a	=	value of Y if $X_1 + X_2 + X_3 + X_4 + X_5 + X_6 = 0$
$b_1, b_2, b_3, b_4, b_5, b_6$	=	coefficients of regression
X1	=	independence
X2	=	experience
X3	=	accountability
X4	=	audit fee
X_5	=	firm size
X_6	=	regulation
e	=	residual value

Table 3.1: Measurement of variables

	Variables	**Measure**
Dependent Variable	Audit quality	Question No. 24-32
Independent Variables	Independent	Question No. 7-9
	Experience	Question No. 10-12
	Accountability	Question No. 13-15
	Audit fee	Question No. 16-18
	Firm size	Question No. 19-21
	Regulation	Question No. 22-23

Source: Developed by the Author

3.4 Data Collection Method

3.4.1 Primary Data Collection

A questionnaire was designed for sampled external audit firms. The questionnaire was developed based on previous empirical literature and its consistency is tested using Cronbach Alpha. Closed ended questionnaires were used for the study. The close-ended questions were developed on a five point Likert scales ranging from 1 (strongly agree) to 5 (strongly disagree). The questionnaire began with an introductory statement, which specified the purpose of the research as purely academic. Respondents were encouraged to be objective in their responses since they were assured of confidentiality.

3.4.2 Secondary Information

The study used secondary data that is obtained from Accounting and Auditing Board of Ethiopia.

3.5 Data Analysis

Descriptive statistics such as frequency distribution was used to assess the demographic profile of the respondents to make the analysis more meaningful, clear and easily interpretable. Descriptive statistics allow the researchers to present the data acquired in a structured, accurate and summarized manner. The analysis of data was done with the help of the statistical software of Statistical Package for Social Sciences (Version 20).

The data collected from the field was sorted for completeness, checked for any errors and omissions, and will summarize in tables. Also the data obtained from the study was entered into the computer and was statistically analyzed using the Statistical Package for Social Sciences (SPSS) the descriptive spastics as well as the validity test was conducted as for the regression part and also OLS (ordinary least square) method will be used by using EViews 9 along with diagnostics tests. Descriptive statistics by percentages, figures and tables will be generated from the software to establish relationship among variables. The relevant information will be obtained in a standard form using tables, frequencies and percentages to analyze and interpret the information.

3.5.1 Validity Testing

The purpose of validity testing is to know how far the instruments measure correctly and accurately. Validity testing used product moment correlation with the criterion of acceptance as the following:

The item of questionnaire is valid if rstatistic is higher than rtable (critical value) at degree of freedom 95% ($\alpha = 0.05$).

3.5.2 Reliability Testing

The purpose of reliability testing is to examine the consistency of the data. In this research the reliability is measured by the internal consistency approach, that is, the concept stressing on the consistency between items in the questionnaire. Reliability measurement with one shot, and then the result will be compared with other items in the questionnaire. SPSS software gives the facility to analyze this test using Cronbach's Alpha. A construct or variable is reliable if the Cronbach's Alpha is more than 0.6 (Ghazali, 2006).

After all instruments were tested for reliability, the clasical assumption of multiple linear regression was tested for the following aspects.

3.5.2.1 Normality Testing

Normality testing is a requirement to conduct single or joint hypothesis tests of the model parameters. The purpose of normality testing is to know that all data of independent and dependent variables have normal distribution. In this research, normality is tested based on Bera Jarque (BJ) test. Bera Jarque uses the property of a normally distributed random variable the mean, the variance, skewness and kurtosis. Skewness measures the extent to which a distribution is not symmetric about its mean value and kurtosis measures the fatness of the tails of the distribution. The normal distribution is not to be skewed and is defined to have a coefficient of kurtosis of 3. The Bera Jarque normality tests result can also be seen on p-value. If the residuals are normally distributed, the histogram should be bell-shaped and the Bera--

Jarque statistic would not be significant. This means that the p-value of the normality test should be bigger than 0.05 (Brooks, 2008).

3.5.2.2 Multicollinearity Testing

Multicollinearity tests the condition whether the independent variables are correlated with one another. If there is no relationship between the independent variables, adding or removing a variable from a regression equation would not cause the values of the coefficients on the other variables to change. In any practical context, the correlation between independent variables will be non-zero, although this will generally be relatively nonthreatening in the sense that a small degree of association between independent variables will almost always occur but will not cause too much loss of precision. However, a problem occurs when the independent variables are very highly correlated with each other, and this problem is known as multicollinearity (Brooks, 2008).

If the correlation coefficient is higher than 0.8, it is considered as the model consists of serious multicollinearity problem. (Joseph and Rosemary, 2003).

3.5.2.3 Heteroscedasticity Testing

The errors do not have a constant variance is said to be Heteroscedasticity. The assumption of homoscedasticity, which reveals that the variance of the disturbance term is constant, is one of the important assumptions of the multiple regression. If disturbance terms (errors) do not have constant variance, then it is said to be hetroscedastic (Gujarati, 2003).

If there is no heteroscedasticiy OLS estimators will still give unbiased (and also consistent) coefficient estimates, but they are no longer best linear unbiased estimators' best linear unbiased estimators (BLUE). That is, they no longer have the minimum variance among the class of unbiased estimators (Brooks, 2008).

The researcher used the Breusch-Pagan-Godfrey method of Heteroscedasticity testing. The probability value should be higher than 0.05, therefore, there is no heteroscedasticiy.

3.5.2.4 Autocorrelation testing

One of the assumption made on classical linear regression model is that the errors are uncorrelated with one another. If the errors are not uncorrelated with one another, it would be stated that they are 'auto-correlated' or that they are 'serially-correlated'. A test of this assumption is therefore required.

The Durbin Watson (DW) is one method to test autocorrelation. I.e. tests the relationship between an error and its immediately previous value. In order to conclude that there is no autocorrelation, DW must be two or near to two.

Ignoring autocorrelation when it is present are similar to those of ignoring heteroscedasticity. The coefficient estimates derived using OLS are still unbiased, but they are inefficient, i.e. they are not best linear unbiased estimators (BLUE), even at large sample sizes, so that the standard error estimates could be wrong (Brooks, 2008). The researcher is used the Durbin Watson (DW) method of testing autocorrelation.

3.5.2.5 The average value of the errors should be zero

The average value of the errors will be zero. If a constant term is included in the regression equation, this assumption will never be violated (Brooks, 2008).

3.6 Hypothesis Testing

There is one dependent variable correlated to six independent variables. Therefore, this research was analyzed based on multiple linear regression, with the following equation:

$Y = a + b_1X_1 + b_2X_2 + b_3X_3 + b_4X_4 + b_5X_5 + b_6X_6 + e$

Where:

Y = audit quality

a = value of Y if X_1, X_2, X_3, X_4, X_5, X_6= 0

b_1, b_2, b_3, b_4, b_5, b_6 = coefficients of regression

X_1 = independence

X_2 = experience

X_3 = accountability

X_4= audit fee

X_5= firm size

X_6= regulation

e = residual value

3.6.1 First Hypothesis Testing

The second hypothesis, there is significant positive relationship between independence and audit quality, is tested with Eview 9 least squares method.

Therefore, the hypothesis, that there is significant positive relationship between independence and audit quality, would be accepted if the p-value of independence is less than 0.05 and the coefficient of the independence is positive (Brooks, 2008).

3.6.2 Second Hypothesis Testing

The third hypothesis, there is significant positive relationship between experience and audit quality, is tested with Eview 9 least squares method.

Therefore, the hypothesis, that there is significant positive relationship between experience and audit quality, would be accepted if the p-value of experience is less than 0.05 and the coefficient of the independence is positive (Brooks, 2008).

3.6.3 Third Hypothesis Testing

The forth hypothesis, there is significant positive relationship between accountability and audit quality, is tested with Eview 9 least squares method.

Therefore, the hypothesis, that there is significant positive relationship between accountability and audit quality, would be accepted if the p-value of accountability is less than 0.05 and the coefficient of the independence is positive (Brooks, 2008).

3.6.4 Forth Hypothesis Testing

The fifth hypothesis, there is significant positive relationship between audit fee and audit quality, is tested with Eview 9 least squares method.

Therefore, the hypothesis, that there is significant positive relationship between audit fee and audit quality, would be accepted if the p-value of audit fee is less than 0.05 and the coefficient of the independence is positive (Brooks, 2008).

3.6.5 Fifth Hypothesis Testing

The sixth hypothesis, there is significant positive relationship between firm size and audit quality, is tested with Eview 9 least squares method.

Therefore, the hypothesis, that there is significant positive relationship between firm size and audit quality, would be accepted if the p-value of firm size is less than 0.05 and the coefficient of the independence is positive (Brooks, 2008).

3.6.6 Sixth Hypothesis Testing

The seventh hypothesis, there is significant positive relationship between regulation and audit quality, is tested with Eview 9 least squares method.

Therefore, the hypothesis, that there is significant positive relationship between regulation and audit quality, would be accepted if the p-value of regulation is less than 0.05 and the coefficient of the independence is positive (Brooks, 2008).

Chapter Four
Data analysis and presentation

The preceding chapters, helped the researcher to understand the problem through reviewing literature and to design appropriate research approach to achieve the objectives of the study and to test research hypothesis there on. In this chapter the collected data is presented and the results are discussed and interpreted accordingly.

As indicated in chapter three of this study the researcher distributed one hundred four questionnaires to fifty two audit firms. Out of it ninety six questionnaires are returned and only eight are not returned. This means more than 92% of the questionnaires are answered and returned to the researcher.

The results of the collected data is presented, discussed and interpreted in this chapter accordingly.

This chapter is organized in five sections. These are Demographic Characteristics of Respondents, Statistical Test Result of Reliability testing, Statistical Result Test of Classical linear regression model Assumption, Statistical Test Result of Hypothesis Testing and Discussion of Regression results presented sequentially.

4.1. Demographic Characteristics of Respondents

As shown in the table 4.1, from the total respondents for this research 87.5% are male and the remaining 12.5% are female. According to the AABE website female auditors obtained practicing certificate are not more than 7% of the entire auditor in Ethiopia. Therefore the huge gap on gender perspective on this research is not surprise.

From the total respondents 47.92% of them are members of local professional associations' namely EPAAA, ASE and EEAA. This means that nearly half of the respondents take part in the development of the accounting profession in Ethiopia. When we consider the respondents international qualification 64.58% of the respondents are ACCA members. The educational

background of the respondents only 2.08% have diploma, where as 79.17% have BA degree in accounting and the 18.75% are masters holders.

Table 4.1: Summary of demographic characteristics of respondents

Category	Item	Frequency	Percent
Gender	Male	84	87.50%
	Female	12	12.50%
	Total	96	100%
Membership in Local Professional Association	Member of Local Professional Associations	46	47.92%
	Not Member	50	52.08%
	Total	96	100%
Membership in International Professional Body	ACCA	62	64.58%
	Not Member	34	35.42%
	Total	96	100%
Qualification	Diploma	2	2.08%
	Degree	76	79.17%
	Masters	18	18.75%
	Total	96	100%
Position	Senior Auditor	26	27.08%
	Audit Manager	38	39.58%
	Principal/ Partner	32	33.33%
	Total	96	100.00%
Experience	Less Than Two Years	4	4.17%
	2 To 5	14	14.58%
	5 To 10	40	41.67%
	More Than 10	38	39.58%
	Total	96	100.00%

Source: Analysis of Survey data 2017, using MS excel 2013

The job position of the respondents are 33.33% principals or partners, 39.58% are audit managers and 27.08% are senior auditors. Concerning the Auditing experience of the respondents only 4.17% are having less than two years' of experience. 39.58% of the respondents are having more than ten years of experience, 41.67% are having 5-10 years of experience and the remaining 14.58%

In summary the demographic characteristics of the respondents are reasonable and helpful to draw conclusion on the determinants of external audit quality.

4.2. Statistical Test Result of Reliability testing

The purpose of reliability testing is to examine the consistency of the data. In this research the reliability is measured by the internal consistency approach, that is, the concept stressing on the consistency between items in the questionnaire. Reliability measurement with one shot, and then the result will be compared with other items in the questionnaire. SPSS software gives the facility to analyze this test using Cronbach's Alpha. A construct or variable is reliable if the Cronbach's Alpha is more than 0.6 (Ghazali, 2006).

Table 4.2 Reliability Test (Cronbach's Alpha)

Reliability Statistics

Cronbach's Alpha	N of Items
.814	7

Item-Total Statistics

	Scale Mean if Item Deleted	Scale Variance if Item Deleted	Corrected Item-Total Correlation	Cronbach's Alpha if Item Deleted
AUDITQUALITY	13.913190	10.576	.753	.758
INDEPENDENCE	13.901621	10.628	.514	.798
AUDITEXPERIENCE	14.033569	10.974	.557	.788
ACCOUNTABLITY	13.929394	10.809	.662	.772
AUDITFEE	13.679400	10.659	.653	.772
REGULATION	13.800925	11.616	.352	.827
FIRMSIZE	13.734952	11.644	.452	.805

Source: Analysis of Survey data 2017, using SPSS 20

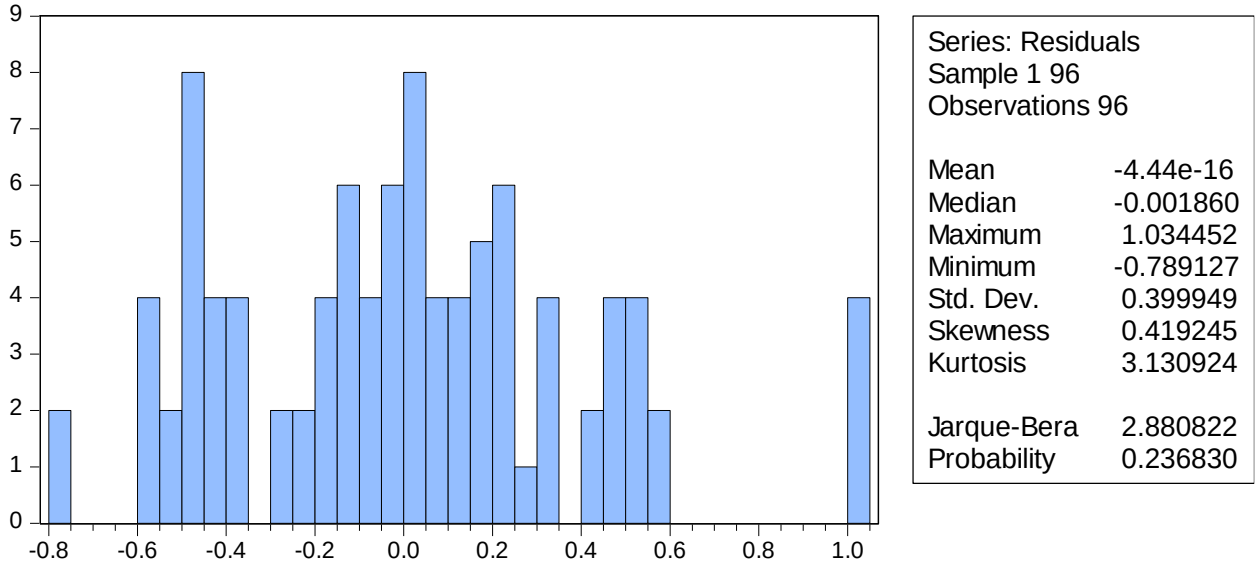
The of reliability testing using SPSS software of Cronbach's Alpha if item deleted shown in table (4.2) resulted for independence is 0.798; experience is 0.788; accountability is 0.772; audit fee is 0.772; regulation is 0.827; firm size is 0.805 and the audit quality is 0.758. It means that all values of Cronbach's alpha are more than 0.6. Moreover the overall Cronbach's Alpha is 0.814. Thus all data are reliable.

4.3. Statistical Result Test of Classical linear regression model Assumption

4.3.1 Test for Normality

The purpose of normality testing is to know that the residuals are normally distributed. In this research, normality is tested based on Bera Jarque (BJ) test. Skewness measures the extent to which a distribution is not symmetric about its mean value and kurtosis measures the fatness of the tails of the distribution. The normal distribution is not skewed and is defined to have a coefficient of kurtosis of three. The Bera Jarque normality tests result can also be seen on p-value. If the residuals are normally distributed, the histogram should be bell-shaped and the Bera Jarque statistic would not be significant. This means that the p-value of the normality test should be bigger than 0.05 (Brooks, 2008).

Figure 4.1: Normality test



As shown in the figure 4.1 Normality test below, the skewness of this research data is 0.419245 and the kurtosis is 3.130924. This means the skewness and the kurtosis are closer to zero and three respectively.

The p-value of residuals of 0.236830 is bigger than 0.05. Hence the the Bera Jarque statistic is not significant. Therefore based on the results of the data described above we can conclude that the residuals are normally distributed.

4.3.2 Heteroscedasticity

The assumption of homoscedasticity, which reveals that the variance of the disturbance term is constant, is one of the important assumptions of the multiple regression. If disturbance terms (errors) do not have constant variance, then it is said to be hetroscedastic (Gujarati, 2003).

Table 4.3: Heteroskedasticity Test: Breusch-Pagan-Godfrey

F-statistic	1.189496	Prob. F(6,89)	0.3192
Obs*R-squared	7.126810	Prob. Chi-Square(6)	0.3093
Scaled explained SS	6.526356	Prob. Chi-Square(6)	0.3669

Test Equation:
Dependent Variable: RESID^2
Method: Least Squares
Date: 05/13/17 Time: 18:46
Sample: 1 96
Included observations: 96

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.172192	0.106546	1.616133	0.1096
Independence	0.053096	0.031226	1.700353	0.0926
Audit Experience	0.001584	0.038586	0.041065	0.9673
Accountability	-0.017746	0.050484	-0.351512	0.7260
Audit Fee	-0.084397	0.046306	-1.822581	0.0717
Firm Size	0.049196	0.041505	1.185302	0.2391
Regulation	-0.003198	0.029058	-0.110061	0.9126

R-squared	0.074238	Mean dependent var	0.158293
Adjusted R-squared	0.011827	S.D. dependent var	0.232284
S.E. of regression	0.230907	Akaike info criterion	-0.023485
Sum squared resid	4.745290	Schwarz criterion	0.163498
Log likelihood	8.127292	Hannan-Quinn criter.	0.052097
F-statistic	1.189496	Durbin-Watson stat	2.204794
Prob(F-statistic)	0.319241		

The Breusch-Pagan-Godfrey method of Heteroscedasticity testing result of this study for the probabilities of the F-statistic and Chi-Square are 0.319241 and 0.3093 respectively (as shown in table 4.3). Thus both test resulted more than probability of 0.05. Therefore, there is no evidence for the presence of hetroscedasticity in this study.

4.3.3 Serial Correlation Testing

Table 4.4: Breusch-Godfrey Serial Correlation LM Test:

F-statistic	2.651863	Prob. F(2,87)	0.0762
Obs*R-squared	5.516112	Prob. Chi-Square(2)	0.0634

Test Equation:
Dependent Variable: RESID
Method: Least Squares
Date: 05/13/17 Time: 18:46
Sample: 1 96
Included observations: 96
Presample missing value lagged residuals set to zero.

Variable	Coefficient	Std. Error	t-Statistic	Prob.
Independence	0.003654	0.055400	0.065962	0.9476
Audit Experience	0.000802	0.068854	0.011647	0.9907
Accountability	-0.036373	0.093465	-0.389159	0.6981
Audit Fee	0.012967	0.082275	0.157610	0.8751
Firm Size	-0.045214	0.081292	-0.556192	0.5795
Regulation	0.052816	0.056114	0.941220	0.3492
C	0.024302	0.193964	0.125294	0.9006
RESID(-1)	0.056156	0.118475	0.473993	0.6367
RESID(-2)	0.266343	0.116213	2.291853	0.0243

R-squared	0.057460	Mean dependent var	-4.44E-16
Adjusted R-squared	-0.029211	S.D. dependent var	0.399949
S.E. of regression	0.405749	Akaike info criterion	1.122894
Sum squared resid	14.32297	Schwarz criterion	1.363301
Log likelihood	-44.89890	Hannan-Quinn criter.	1.220070
F-statistic	0.662966	Durbin-Watson stat	2.006602
Prob(F-statistic)	0.722522		

One of the assumption made on classical linear regression model is that the errors are uncorrelated with one another. If the errors are not uncorrelated with one another, it would be stated that they are 'auto-correlated' or that they are 'serially-correlated'. A test of this assumption is therefore required.

The Durbin Watson (DW) is one method to test autocorrelation. I.e. tests the relationship between an error and its immediately previous value. In order to conclude that there is no autocorrelation, DW must be two or near to two.

The DW result for this study is 2.006602 (Ref table 4.4) or closer to 2. Therefore, there is no autocorrelation problem in this study. I.e. the errors are uncorrelated with one another.

4.3.4 The average value of the errors is zero

The average value of the errors is zero. If a constant term is included in the regression equation, this assumption will never be violated (Brooks, 2008). Therefore the constant term is included in this research and thus this assumption is fulfilled in this research.

4.3.5 Multicollinearity Testing

Multicollinearity tests the condition whether the independent variables are correlated with one another. If there is no relationship between the independent variables, adding or removing a variable from a regression equation would not cause the values of the coefficients on the other variables to change (Brooks, 2008).

If the correlation coefficient is higher than 0.8, it is considered as the model consists of serious multicollinearity problem (Joseph and Rosemary, 2003).

As per the table 4.5 below the maximum inter-correlation among the independent variables is 0.597038 between firm size and audit fee. All the inter-correlation among the independent variables are below 0.80, therefore there is no signal for a possibility of multicollinearity problem in this study.

Table 4.5: Multicollinearity

	Accountability	Audit Experience	Audit Fee	Firm Size	Independence	Regulatory
Accountability	1.000000	0.580035	0.553068	0.220340	0.527235	0.181931
Audit Experience	0.580035	1.000000	0.415393	0.307516	0.275005	0.270372
Audit Fee	0.553068	0.415393	1.000000	0.597038	0.334841	0.312311
Firm Size	0.220340	0.307516	0.597038	1.000000	0.240945	0.292507
Independence	0.527235	0.275005	0.334841	0.240945	1.000000	0.180737
Regulation	0.181931	0.270372	0.312311	0.292507	0.180737	1.000000

4.4. Statistical Test Result of Hypothesis Testing

The output of multiple regression analysis is presented below in table 4.6.

Based on table 4.6 below, the regression equation is mathematically presented as follows:

$Y = 0.1227 + 0.3140X_1 + 0.1375X_2 + 0.2904X_3 + 0.1391X_4 - 0.0527X_5 + 0.1089X_6 + e$

Where,

Y = audit quality

X1 = independence

X2 = experience

X3 = accountability

X4 = audit fee

X_5 = firm size

X_6 = regulation

e = residual value

The result of the multiple regression model Least Squares Method used in this study is presented below in table 4.6. According to table 4.6 the R-squared statistics and the adjusted-R squared statistics of the model was 67.5% and 65.3% respectively. The result of this

estimation of adjusted-R squared indicates that the changes in the independent variables explain 65.3% of the changes in the dependent variable. This means that independence, experience, accountability, audit fee, firm size and regulation collectively explain 65.3% of the changes in audit quality. However, the remaining 34.7% of changes was explained by other factors which are not included in the model. This suggests the model represent a fair prediction of the determinants of external audit quality in Ethiopian external audit firms.

4.4.1 First Hypothesis Testing

The first hypothesis, there is significant positive relationship between independence and audit quality, is tested with Eview 9 least squares method.

Therefore, the hypothesis, that there is significant positive relationship between independence and audit quality, would be accepted if the p-value of independence is less than 0.05 and the coefficient of the independence is positive (Brooks, 2008).

The p-value and coefficient of independence as shown in table 4.6 are 0.0000 and 0.313973 respectively. Therefore the hypothesis that there is significant positive relationship between independence and audit quality is accepted at 5% and 1% significance level.

This result confirms that the freedom to develop audit program, the freedom to examine and the freedom to report have positive and statistically significant influence on audit quality. This result is found to be in line with previous studies of (Suseno, 2013; Halim et al., 2014; Suyono, 2012).

4.4.2 Second Hypothesis Testing

The second hypothesis, there is significant positive relationship between experience and audit quality, is tested with Eview 9 least squares method.

Therefore, the hypothesis, that there is significant positive relationship between experience and audit quality, would be accepted if the p-value of experience is less than 0.05 and the coefficient of the experience is positive (Brooks, 2008).

The p-value and coefficient of experience as shown in table 4.6 are 0.0495 and 0.137487 respectively. Therefore the hypothesis that there is significant positive relationship between experience and audit quality is accepted at 5% significance level. This result confirms that general and specific audit experience have positive and statistically significant influence on audit quality. This result is found to be in line with (Suyono, 2012).

4.4.3 Third Hypothesis Testing

The third hypothesis, there is significant positive relationship between accountability and audit quality, is tested with Eview 9 least squares method.

Therefore, the hypothesis, that there is significant positive relationship between accountability and audit quality, would be accepted if the p-value of accountability is less than 0.05 and the coefficient of the accountability is positive (Brooks, 2008).

The p-value and coefficient of accountability as shown in table 4.6 are 0.0018 and 0.290390 respectively. Therefore the hypothesis that there is significant positive relationship between accountability and audit quality is accepted at 5% and 1% significance level. This result confirms that auditors' motivation to undertake assignments, dedication to the profession and acceptance of social obligation have positive and statistically significant influence on audit quality. Again this result is in line with (Suyono, 2012).

4.4.4 Forth Hypothesis Testing

The forth hypothesis, there is significant positive relationship between audit fee and audit quality, is tested with Eview 9 least squares method.

Therefore, the hypothesis, that there is significant positive relationship between audit fee and audit quality, would be accepted if the p-value of audit fee is less than 0.05 and the coefficient of the audit fee is positive (Brooks, 2008).

The p-value and coefficient of audit fee as shown in table 4.6 are 0.0967 and 0.139120 respectively. Therefore the hypothesis that there is significant positive relationship between audit fee and audit quality is rejected at 5% and accepted at 10% significance level. This result confirms that charging audit fee based on the assigned expert and the time needed to complete, charging reduced fee have positive but statistically insignificant influence on audit quality. This result is not in line with Antonio Lopo (2015), however the hypothesis is rejected only at 5%.

4.4.5 Fifth Hypothesis Testing

The fifth hypothesis, there is significant positive relationship between firm size and audit quality, is tested with Eview 9 least squares method.

Therefore, the hypothesis, that there is significant positive relationship between firm size and audit quality, would be accepted if the p-value of firm size is less than 0.05 and the coefficient of the firm size is positive (Brooks, 2008).

The p-value and coefficient of firm size as shown in table 4.6 are 0.4800 and (-0.052679) respectively. Therefore the hypothesis that there is significant positive relationship between firm size and audit quality is rejected at 5% significance level. They are also negatively correlated. This result confirms that the large firms reputation, the better financial resource and superior technology and the benefit obtained from having larger client portfolios to resist management pressure have negative and statistically insignificant influence on audit quality. This is not in line with the result of larger offices providing higher quality audits found by (Francis & Yu, 2009).

4.4.6 Sixth Hypothesis Testing

The sixth hypothesis, there is significant positive relationship between regulation and audit quality, is tested with Eview 9 least squares method.

Therefore, the hypothesis, that there is significant positive relationship between regulation and audit quality, would be accepted if the p-value of regulation is less than 0.05 and the coefficient of the regulation is positive (Brooks, 2008).

The p-value and coefficient of regulation as shown in table 4.6 are 0.0390 and 0.108942 respectively. Therefore the hypothesis that there is significant positive relationship between regulation and audit quality is accepted at 5% significance level. This result confirms that strong regulation and threat of liability payments have positive and statistically significant influence on audit quality. This result is in line with (Memiş & Çetenak, 2012).

Table 4.6: Multiple regression results

Dependent Variable: Audit Quality
Method: Least Squares
Date: 05/13/17 Time: 18:44
Sample: 1 96
Included observations: 96

Variable	Coefficient	Std. Error	t-Statistic	Prob.
Independence	0.313973	0.055880	5.618726	0.0000
Audit Experience	0.137487	0.069049	1.991142	0.0495
Accountability	0.290390	0.090341	3.214360	0.0018
Audit Fee	0.139120	0.082866	1.678855	0.0967
Firm Size	-0.052679	0.074274	-0.709253	0.4800
Regulation	0.108942	0.052000	2.095044	0.0390
C	0.122671	0.190665	0.643385	0.5216

R-squared	0.674967	Mean dependent var	2.252315
Adjusted R-squared	0.653054	S.D. dependent var	0.701521
S.E. of regression	0.413211	Akaike info criterion	1.140403
Sum squared resid	15.19614	Schwarz criterion	1.327387
Log likelihood	-47.73937	Hannan-Quinn criter.	1.215985
F-statistic	30.80303	Durbin-Watson stat	1.914104
Prob(F-statistic)	0.000000		

4.5. Summary of findings

The researcher draw seven hypothesis on this thesis. From the six hypothesis four of them are accepted and only two hypothesizes are rejected. Details of the findings on each hypothesis was elaborated in the preceding section. The key findings of this thesis are presented below:

- Auditor Independence has positive and significant impact on audit quality.
- Audit experience has positive and significant impact on audit quality.
- Auditor's accountability has positive and significant impact on audit quality.
- Audit regulation has positive and significant impact on audit quality.
- Audit fee has positive but insignificant impact on audit quality.
- Audit firm size has negative and insignificant impact on audit quality.

Therefore all the variables used by the researcher affect audit quality simultaneously. However, not all the factors have significant impact on audit quality individually. Auditor independence, experience, accountability and regulation have positive and significant impact on audit quality, whereas audit fee and firm size have not significant impact on audit quality.

Chapter Five

Conclusions and recommendations

The aim of this chapter is to present the overall overviews of the research by summarizing and suggestion of appropriate recommendation for the findings of the study. Finally there are suggestion for future research areas. Accordingly, the chapter starts its discussion by brief summary of the study. Appropriate recommendation along with citation of future research areas are presented sequentially then after.

5.1 Conclusions

Reliable information is necessary for all stakeholders to make an informed decisions. As a consequence of the rising number of accounting scandals of famous global players such as the highly publicized collapse of Enron debacle, the failure of Andersen and WorldCom's massive fraud make clear that high quality external auditing is one of the central components of sound corporate governance.

The basic question is whether there exists highest audit quality and what might be its determinants. Extensive research has attempted to identify these factors; however, the findings of prior empirical studies have provided varying evidence related to the impact of these factors on audit quality. Furthermore, very few researches had been conducted in the Ethiopian circumstance.

In light of the above, the main objective of this study was to examine the determinants of external audit quality in the Ethiopian external audit firms.

The study used audit firm variables of independence, audit experience, accountability, audit fee, firm size and regulation. It also examined whether the selected audit determinant factors significantly affect audit quality. To achieve the intended objective the study used quantitative approach. The quantitative data were collected through close ended questions from a sample

of ninety six external audit practitioners found in Ethiopia. The collected data were analyzed by cross sectional least square regression analysis model using statistical package 'EVIEW 9'.

The data was first tested reliability test using Cronbach's Alpha and result 0.814 much more than the minimum threshold of 0.60.

The adjusted value of R square (0.653054) indicated that audit quality is around 65.3% dependent on independent variables of independence, experience, accountability, audit fee, firm size and regulation. Therefore, it implies that the identified and analyzed independent variables are reasonably important determinants factors of audit quality in Ethiopian external audit.

The results of regression analysis reveal that

- Independence, experience, accountability and regulation are statistically significant factors influencing the variation in audit quality in the Ethiopian external audit firms. However individually not all the factors examined have significant impact on audit quality.

- Auditor independence in programming, investigative and reporting as the theory suggested by Mauiz & Sharaf (1961) are in line with the empirical studies of (Suseno, 2013; Halim et al., 2014; Suyono, 2012), auditor independence has positive and significant impact on audit quality.

- Audit experience of general and industry specific experience has positive and significant impact on audit quality through detection of material misstatement. This finding also in line with empirical study of (Suyono, 2012).

- Auditor's accountability, which is explained in terms of motivation, dedication and auditors acceptance of social obligation, has positive and significant impact on audit quality. This finding also in line with the result of the empirical study conducted by Suyono, (2012).

- ❖ Regulation imposed on the auditors through strong regulation and threat of liability payments also has positive and significant impact on audit quality. This result is supported by the empirical study conducted by Memiş & Çetenak (2012).

- ❖ The audit fee may has positive and significant impact on audit quality on 10% significant level. However the significant level used for this study is only 5%. Therefore audit fee has insignificant impact on audit quality.

- ❖ Firm size has insignificant impact on audit quality. However, this result is in contrary to the empirical study made in USA by Francis & Yu (2009).

5.2. Recommendations

Based on the findings of the study the researcher recommended that:

- The study confirms that the variables of the independence, experience, accountability and regulation were significant key drivers of audit quality of Ethiopian external audit. As a result, this is a clear signal to Ethiopian external audit firms that they cannot ignore these factors so as to keep and or increase the quality of audit report.

- Currently the Accounting and Auditing Board of Ethiopia (AABE) has been established, one of the reason for its establishment is to reduce the risk of financial crisis, corporate failure and associated negative economic impacts. Therefore, this is a clear signal to AABE to give more consideration of the key determinant factors of independence, experience, accountability and regulation identified by this study up on regulating the auditing sector.

- Professional associations and AABE should take the results of this study particularly the impact of regulation on audit quality. Therefore, they should have to design and exert effective regulation on the audit industry in order to increase the stockholders trust on the audited statement.

5.3. Future Research Recommendations

Finally, the researcher recommended areas for other researchers are:

- To study the challenges which limit the accounting professional associations from playing an important role on the regulation of the auditing practice.
- To study how to regulate the auditing industry of Ethiopian.

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Questionnaire

Dear respondent,

The aim of this questionnaire is only to analyses determinants of external audit quality in Ethiopia.
I would like to assure you that the information you provide will be confidential and used only for the purpose of achieving academic award.

Thank you for your participation

With Kind Regards,

Tensae Nebiye

Annex 1

A. Section I – General information

1. Your gender

(Please put your tick marks in the appropriate box provided).

Male	Female

2. Your Membership of local professional association

(Please put your tick marks in the appropriate box provided).

EPAAA	ASE	EAA	All EPAAA, ASE & EAA	EPAAA & ASE	EPAAA & EAA	ASE & EAA	NONE

3. Your Membership of international professional association.

(Please put your tick marks in the appropriate box provided).

ACCA	CPA	Both ACCA & CPA	NONE

4. Your qualification

(Please put your tick marks in highest of your qualification mentioned below).

Diploma	Bachelor's Degree	Master's Degree	PhD

5. Your current position

(Please put your tick marks in the appropriate box provided).

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

6. Years of Experience in External Audit

(Please put your tick marks in the appropriate box provided).

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

C. Section II – determinants of external audit quality

* ***For this section please put your tick marks in the appropriate box provided which best describe your observation.***

I. Independence

S/N	Statements	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
1	The auditor has freedom to develop his/her own audit program, both as to steps to be included and the amount of work to be performed, within the over-all bounds of the engagement					
2	The auditor is free from control or undue influences in the selection of areas, activities, personal relationships and managerial policies to be examined.					
3	The auditor is free from control or undue influence in the statement of facts revealed by the examination or in the expression of recommendations or opinion as a result of the examination.					

II. Audit experience

In experience point of view, in-charge auditor must have working experience of at least 2 years. It is assumed that one audit assignment could be completed in one month period, so the frequency of audit work could be 24 times on around 2 years.

(Please put your tick marks in the appropriate box provided which best describe your observation).

S/N	Statements	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
1	Experience helps the auditors to detect material misstatements.					
2	In charge auditor will not be assigned in the assignment if he/she has no general audit experience.					
3	In charge auditor will not be assigned in the assignment unless he/she has both general audit experience and client-specific audit experience during his/her assignment.					

III. Accountability

S/N	Statements	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
1	In-charge Auditors are motivated to undertake assignments and finalize the audit work.					
2	Auditors are dedicated to the profession during their assignment.					
3	Auditors accept social obligation levied on them and act to perform their assignment in such spirit.					

IV. Audit fee

S/N	Statements	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
1	The audit fee is dependent on the assigned expert and the time needed to complete the task					
2	Higher audit fee is associated with higher audit quality					
3	Audit market computation with reduced fee reduces the audit quality.					

V. Audit firm size

S/N	Statements	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
1	Large audit firms have a reputation to safeguard and ensure an independent quality audit service.					
2	Larger audit firms have better financial resources and research facilities, superior technology and more talented employees to undertake large company audits than do smaller audit firms.					
3	Larger audit firms benefit from their larger client portfolios to resist management pressure, whereas smaller firms provide more personalized services due to limited client portfolios and are expected to succumb to management requirements					

VI. Audit firm regulation

S/N	Statements	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
1	Strong regulation is associated with higher audit quality.					
2	The threat of liability payments creates an incentive for the auditor to work hard					

VII. Audit Quality

S/N	Statements	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
1	Awareness of client's industry is achieved during the audit planning stage.					
2	The firm is responsive to increase the client satisfaction.					
3	The audit work is conducted in compliance with audit standards.					
4	The audit opinion is made based on prudent work.					
5	The audit firm is committed to achieve audit quality.					
6	Senior auditors are involved on each audit assignment.					
7	Auditors conduct their assignments in high ethical standards.					
8	Auditors conduct their assignments in a manner of professional skepticism.					
9	Adequate time relevant to draw opinion is allocated for audit assignments.					

Annex 2

List of Registered Authorized Auditors

please click here to download list-of-certified-auditors

List of Certiáed Auditors

No.	Firm's Name	Physical Address	Tell	E-mail
1	Menbere leul and co.	infront ofharmony hotel, âoor 8, no 6& 5	911230461	menbereleul@yahoo.com
2	Solomon Eshete & co.	5 killo, mekanyesus buld., âoor 3, no 307,306,303	911404989	sol2000e@yahoo.com
3	Samson Worku &co.	boile medhanialem, sheger buld., no 504	911428486	sami_thom@yahoo.com
4	TSY audit service	gabon street, oáce in a selfcontained villa	911214445	tadwoglo@ethionet.et
4	TSY audit service	gabon street, oáce in a selfcontained villa	911417497	yoftahe_2007@yahoo.com
4	TSY audit service	gabon street, oáce in a selfcontained villa	911637836	seifemshewa@yahoo.com
5	Getenet Worku &co.	bole, woreda 03	911694065	gechove@yahoo.com
6	Bilal Mohammed	beklobet, garad mall, no 432-6-10	911230648	bilmoh32@gmail.com
7	Abraham Berehanu & co.	olompia, Appex buld, no 402	911220346	abrahamn.co@thionet.et
8	Zelalem Tilahun &co.	megenanga, metebaber buld, âoor 6, no 620	930109816	zelalemtil@gmail.com
9	Getachewu Wakjira &co.	bole road, CETV bldg, no 609,610,611	911212087	getwok@ethionet.et
10	Habetewold meneker &co.	mezid plaza bldg, no 607	911660793	habtemenk@ethionet.et
11	Mekonnen Muluneh & co.	22 road, bata complex, âoor 2, no 201	911513712	mekonnenmuluneh@gmail.com
12	Tesefaye Tessema& co.	kazanchis, johnni budg. No 602	911429035	tests1974@gmail.com
13	ASGB Audit ors partner	Gabon street, solo complex, no 304	930014628	asrat.bekele@asgbpartners.com
13	ASGB Audit ors partner	Gabon street, solo complex, no 304	930013564	seffa.abdella@asgbpartners.com
13	ASGB Audit ors partner	Gabon street, solo complex, no 304	930013563	gezahegn.worku@asgbpartners.com
13	ASGB Audit ors partner	Gabon street, solo complex, no 304	911233375	
14	Jemal Ali & co.	CETU bldg. âoor 2, no 205,216	911206903	jemalalbr@gmail.com
15	Bezuayehu Menegesha & co.	Lideta, no 1965/00	911149392	bzymng@yahoo.com
16	Aleta & co.	Tg bldg. no 485/4/1	911517413	alemgenaadugna@yahoo.com
16	Aleta & co.	Tg bldg. no 485/4/1	911517414	aleta.company@gmail.com
17	Tamerat Abebe &co.	Seria lion street, yeshi-tam buldg, no 301,302	911526622	tamratabebe@gmail.com
18	Muhaba muhamed & co	kelifa bussiness center, no 806	911252038	muhabaa@gmail.com
19	Eliab Tilahun &co	Gurd shola, athlethics federation buldg, no 311	911227451	eliabtilahun.co@gmail.com
20	Tesfaye Menegesha & co.	wollo seffer, TK buldg no F2-203	911215779	auditor.tesfaye.mengesha@gmail.co
21	Fekade AB & co.	chirchil road, electric world buldg. No EW/3F/304	911518183	fekadeab@gmail.com
22	Tigist & Eyob Audt service g/ partnership	kera, soáa mall, no 408	911485953	tgtemwari@gmail.com
22	Tigist & Eyob Audt service g/ partnership	kera, soáa mall, no 408	911644496	jobshaz@gmail.com
23	Ephrem Melaku & co	Beal buldg. No	911251765	eph.melaku@gmail.com
24	Tsega Demkbo co.		912095872	tsega2@yahoo.com
25	Mekonnen G.audit service	bambis, hailgebrieal bldg. âoor 5, no 502,503	911226567	mekgebe@yahoo.com
26	Tinsae Tekeste & co.	megenanga, metebaber buld, âoor 7, no 707,708	911141647	dtinsae@gmail.com
27	Kassa Yilala co.	bole michael, P.O.Box 33123	911243694	kassayilala@yahoo.com
28	Wegderes Nigusie & co.	megenenga, metebaber buld, no 403	911886231	wegderes2020@gmail.com
29	Soliyana Kiros & co.	NUR bldg. no 5-01	911155779	ksoliyana@gmail.com
30	Geberemelak Bereded & Co.	near moenco	911631580	gmelakbereded@gmail.com
31	Belete Tensaye & co.	meshualekia, yeabsira buldg. Floor 4. No 402	911478963	wtensayebelete@gmail.com
32	Solomon Demena & co.	Diaspor square, hanko Buldg. No 49,491	930110292	tomime74@gmail.com
33	Getachewu Tabor & co.	Down town buldg, âoor 4, no 305	930175796	gttbtabor@yahoo.com
34	Akalu Nurye & co.	haile g/selase road, WAF buldg. No 405	930013256	akalunurye@yahoo.com
35	Lotá Bibawi &co.	old airort area, Bekele Eshete buldg. No 2474	911200165	lotá.bibawi@ethionet.et
36	Aliha Abdulahi &co.	22 mazoria, zerihun buldg. Floor 3, no 44	911200258	alia1993audit@yahoo.com
37	Leul Zewdie &co.	22 mazoria, denbera hosipital area, âoor 3, no 4u	911515682	leulzewdie@yahoo.com
38	Ama-Hai charterd accountants Plc	Wello sefer, Ambasel buldg, no 005	911243405	haigeb2004@yahoo.com
38	Ama-Hai charterd accountants Plc	Wello sefer, Ambasel buldg, no 005	911509545	amanuel.bahta@yahoo.com
39	Haileyesus chekol & co.	Mexico, Tselere buldg, no 9c	911871788	hailech2011@gmail.com
40	Adane Batiso Audit service	Haile G/selassie road, Zerihun buldg. No 493/50	911160878	batisoadane@gmail.com
41	HST PLC	Wolosefer, Mina building, 5th âoor	911220658	tgebru@deloitte.com
42	Eyasu W.mariam &co.	Bisrate gebriel, byne buldg, no 603	911465573	eyasuwma2014@gmail.com
43	Adaneche Feyissa &co.	Arat kiloo, Ambachew tessema buldg, no 105	930012754	adanech_2008@yahoo.com

Annex 2

44	Hassen Abate &co.	Meskel âower, Nazar hotel, no 302		911858250	hassenabate@yahoo.com

Annex 2

45	Abebe kiâe & co.	Emperial Hotel area,yemeron senay buldg.Floor 5	912614761	abebekiâem@gmail.com
46	A.R authorized Auditor	Bambis, Zekuala complex, no 10B	911231380	aminarashid154@gmail.com
47	Solomon Tiruneh & co.	Mesekelâower,warkae assefa buldg. Floor 2,no4	911433904	soltir2000@yahoo.com
48	TAY & company	Ethio -China street, Wongelawit Tadesse buldg. Floor , no 1-3	930014106	tesfa@tayauditing.com
48	TAY & company	Ethio -China street, Wongelawit Tadesse buldg. Floor , no 1-3	911515038	alemayehu@tayauditing.com
48	TAY & company	Ethio -China street, Wongelawit Tadesse buldg. Floor , no 1-3	911515039	yeheyis@tayauditing.com
49	Ephrem demessie & co	Lafto, no b26/SHOX	911359090	efrem.demissie@gmail.com
50	Frezer Habetewold & co.	Aárca Avenue Dembel City Center, Room Number 915B	911078410	frehab504@gmail.com
51	Berhanu Retta & co.	Haile G/sellassie road, haile g/selassie buldg,no 407	911234415	berhanureta@gmail.com
52	Tesefaye Teferi & co.	Mesqel âower, Tibebu buldg. Floor 4,	911219104	tesfayetef@gmail.com
53	Bahru Gebere & co.	Woreda 04, POBOX 1910 code 1100	911864487	bahrugebre@gmail.com
54	Tesefaye Gedelu & co.	Elizabet IIst, ambachewu tessema buldg, âoor 4, no 406	930075822	metgedlu@yahoo.com
55	Yeshanew Gonfa & co.	Africa Avenue, Afomi buldg, âoor 2	911678117	ygandcompany@gmail.com
56	Wubshet & Alemayehu Audit partner	Nefas silk paint factory, Dawi buldg, âlor 3, 2nd buldg.	911527274	wubshetp123@gmail.com
57	Mulugeta Eshetu & co.	Genet hotel Area, Taos buldg. No 743	911692611	mullerguale@yahoo.com
58	Degefa Lemessa AA limited partnership	Beklo bet, Almu w/Tsadik buldg, no 12	911223210	Deg.lem@ethionet.et
			911983572	tewodros@accamail.com
59	Solomon Wassyihun & co.	Kera, Beal buldg, no 705-706	911237386	solomon wassyihun@yahoo.com
60	Abraham Teshome & co.	22 mazori, Rewina buldg, âoor 6, no 603	911231360	atco@ethonet.et
61	Mohammed Yasim & co.	Kadisko squaer rim road	911544632	mohammedaudit@yahoo.com
62	Amare Getu & co.	Bole medhaniyalem, welelaye buldg. No 406	930013328	amaregetu@gmail.com
63	Solomon Shewaye & co	Abenet, Giba buldg. Floor 2,no 312	912848329	kuk@accamail.com
64	Eshetu & Meseán Audit partnership	Around commerc, Hezid buldg. No 704	913213261	eshetutilahun@gmail.cpm
64	Eshetu & Meseán Audit partnership	Around commerc, Hezid buldg. No 704	913011231	mesánnsyoum@gmail.com
65	Tibebe Mengistu & co.	Bole medianalem, abyssina plaza, âoor 3,	911516027	tibebe@tibebemengistu.com
66	Tadele Gebeyehu & co.	Woreda 07, POBOX 2371 code 1100	911965040	tggebeyehu@gmail.com
67	Daniel Getaneh & co.	Bole, Athlete birehane adere buldg. No 401	911689418	danielauditors@gmail.com
68	Getachew Benalfew & Co.	Behind semene hotel,		gbauditors@yahoo.com
69	Mulubrhan Meressa Autorized Audit		930034932	mulubrhan0478@gmail.com
69	Mulubrhan Meressa Autorized Audit	.		
70	Haile giorgis Terfe Anbessie Audit service	Ureal Atlas Street Awash insurance Building 5th âoor-501 Guinea Conakry st	911400970	Htaaauditing@gmail.com
71	Getachew Kassaye & co.	Getahun Birke buldg. No 111/09	911202392	getachewkassye@ethionet.et
72	Girma & Fasil Audit aprtnership	Africa Avenue, Dabi complex, no 5	911212635	girma@gandfauditpartners.com
			911559050	fasil@gandfauditpartners.com
73	Kalid Mohammed & co.	Mexico, Kkare, âoor 6, no 180/638	911125235	kalidom_2004@yahoo.com
74	Kokab & Melekamu Audit partnership	Amhara dev't Assocation buldg. Floor 2, no 208-213	911516146	melkamubelete@yahoo.com
			911203778	kokmelk@ethionet.et
75	A.W. Thomas Limited partnership	Guinea conakry St. Grant Thornton buldg. Floor 4	911448276	awthomaslp@gmail.com
75	A.W. Thomas Limited partnership	Guinea conakry St. Grant Thornton buldg. Floor 4	911241255	melaku@awthomas.com
75	A.W. Thomas Limited partnership	Guinea conakry St. Grant Thornton buldg. Floor 4	911489137	seid@awthomas.com
76	Audit Services Corporation	Josif Tito St,	930078295	demsash1@yahoo.com
77	Ermias Negussie & co.	22 mazoria, Genet buldg. No- 08, 09	911229495	ermiasn@ethionet.et
78	Zemedhun & Co.	Meskel square area, Anbessa bulg, âoor 5, no 5c	911514799	adanezemedhun@gmail.com
79	Paulos Basazenewu & co.	Arada subcity, Ambachew Tessema, no 501	911642405	paulosbasazenew@yahoo.ocm
80	Yared Dsalegn & co.	Genet commercila center, âoor 4, no 401-54	936013113	yared1803@gmail.com
81	TMS plus Authorized Auditors	22 mazoria, auality buldg. No 3/305	911229425	tafessef@hotmail.com
81	TMS plus Authorized Auditors	22 mazoria, auality buldg. No 3/305	911223369	shisema@ethionet.et
82	A.A Bromhaed & co.	Jomo kenyata buldg. Mekane yesus buldg. Floor 4	911200074	aabromhead@gmail.com
83	Getachewu Yemenshoa & Co.	Halile g/selasee St, haile buldg. Floor 3, no 303, 304	911211800	dagmawi26@gmail.com
84	Tewodros Assefa & Co.	Infront of genet Hotel, Tows Tower, no	911672422	tewodrosassefab@gmail.com
85	Alemayehu Endale & Co.	Abenete Square, Gibe buldg, âoor 3, no 208	912503131	alemaenda@gmail.com
86	Tambizot Minwuye & Co.	Megenanga, metebaber buldg, âoor 6, no 610	911151297	tambizot@gmail.com
87	Wudu & Hussien Audit partnership	Africa avenue, demble city center, âoor- 12, no 1234	911666982	wudutechanee@gmail.com
88	Habtamu Tesfaye & Co.	Woreda 8, enat tower, âoor 9, no 908	911227475	habtamuu@gmail.com
89	Hafetu Tsegay & Co.	Tigray, kedamaye woyane, harambe buldg, âoor 3	914300522	haftutsegay@gmail.com
90	Biruk Hailu	K/Keraneo Woreda 07	911691316	Birukhailu14@gmail com
91	Yonas Fekede	Kolfe Keranio, Woreda 09	911114229	Yfekede@gmail.com
92	Tekestebirhan Dagne	Yeka, Woreda 12	911717558	Tekelite@gmail.com
93	Awake G/Selassie	Meshualekia ,Yewalawork build.No 26	911221141	agselassie@ethionet.et
94	Dagne Mekonnen Certiáed audit árm	Meskel Flower, Road Family Buld.No 502	911422105	dagnemek32@gmail.com
95	Hruy Abebayehu Mergia Certiáed audit árm	Atlas, SIHAM Bld.4th âoor oáce.no 402	911733289	Hruyabebaw@gmail.com
96	Kassaye Assefa Alemu Certiáed audit árm	Mexico, A.M Real state, 4th âoor, oáce no. 402	911235039	kassayeassefa10@gmail.com
97	Siyoum Tamane Temesgen Certiáed audit árm	Bole Yehera Bld. 2nd âoor	913012302	seyoumtamene@yahoo.com
98	Elias Zeleke Weldekidan Certiáed audit árm	Bole road, GCC bld. Oáce number 1002	911689854	zelekee@yahoo.com

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Total: 60365

Currently Online: 32

ፌዴራል ዋና ኦዲተር መ/ቤት

የግል ኦዲት ድርጅቶች ያለብት ደረጃ መገምገሚያ (Grading) መስፈርት

ለግምገማው መሠረት የሆነው ከዚህ በፊት ቀደም የግል ኦዲተሮች በመ/ቤታችን የተገመገሙበትን መስፈርት መሰረት በማድረግ ነው:: በዚህም መሠረት ለሰው ኃይል 60% ሲሰጥ ለአጠቃላይ የድርጅቱ ሁኔታ ደግሞ 40% እንዲያገኝ ተደርጓል:: በእያንዳንዱ ዋና ርዕስ ሥር የተዘረዘሩትን ንዑስ ርዕሶች ለመመዘን ያመች ዘንድ እያንዳንዱ ዋና ርዕስ ከ100% እንዲያዝ ከተደረገ በኋላ ወደ 60% እና 40% እንዲለወጥ ተደርጓል:: ለእያንዳንዱም ንዑስ ርዕስ መሠረት የሚሆን ደረጃ የወጣለት ሲሆን ዝርዝር የነጥብ አሰጣጥ ሁኔታው ቀጥሎ ተመልክቷል::

1. **የሰው ኃይል (Staff profile)**

1.	የድርጅቱ ሠራተኞች የትምህርት ደረጃ	ከ30%
2.	ድርጅቱ ያለው የሠራተኛ ብዛት	ከ20%
3.	የድርጅቱ የደመወዝ ስኬል	ከ10%
4.	የሥራ ልምድ	ከ20%
5.	የሰው ኃይል ልማት	ከ10%
6.	ሌሎች ጥቅማ ጥቅሞች	ከ10%
		100%

2. **አጠቃላይ የድርጅቱ ሁኔታ (Office Profile)**

1.	የተጣራ ሀብት	ከ12%
2.	በሙያ ምክንያት ለሚከሰት ጉዳት የመድህን ዋስትና	ከ 5%
3.	የቢሮ አደረጃጀትና ይዘት	ከ12%
4.	የቢሮ ዕቃዎች	ከ12%
5.	የኦዲት ደንበኞች ብዛት	ከ10%
6.	የኦዲት ደንበኞች ክልላዊ ሽፋን	ከ 7%
7.	የሥራ ማስኬጃ ወጪ	ከ10%
8.	ዓመታዊ የኦዲት ገቢ	ከ10%
9.	የሪከርድና ማህደር አያያዝ	ከ 2%
10.	ድርጅታዊ መዋቅር	ከ 3%
11.	የኦዲት ሥራ መመሪያ/ማኑዋል/ና ሌሎች	ከ12%
12.	ለቅርንጫፍ ጽ/ቤት	ከ 5%
		100%

የአዲት ድርጅቱን የሰው ኃይል እና አጠቃላይ የድርጅት ሁኔታ ለማወቅ የድርጅቱን ባለቤት *ባለቤቶች(ቃለ መጠይቅ ማድረግ፣ ድርጅቱ ድረስ በመሄድ አጠቃላይ የድርጅቱን ሁኔታ መገምገም ያስፈልጋል። በሚገኘው Aጠቃላይ ውጤት መሠረት፡-

1. **ደረጃ አንድ** (Grade A) **ከ75% በላይ ውጤት ያገኙ**

2. **ደረጃ ሁለት** (Grade B) **ከ50% እስከ 75% ውጤት ያገኙ**

3. **ደረጃ ሦስት** (Grade C) **ከ50% በታች ውጤት ያገኙ**

በማለት ግምገማው በዚሁ መሠረት የሚፈጸም ይሆናል።

የዐዲት ድርጅቱ ስም _____

ዐዲት ድርጅቱ የታየበት ቀን _____

1. <u>የሰው ኃይል (60%)</u>

ሀ. <u>የትምህርት ደረጃ 30% (ዝርዝር መያያዝ አለበት)</u>

ተ.ቁ.	የትምህርት ደረጃ	ከፍተኛ የሥራተኛ ብዛት	የሚሰጠው ነጥብ	ድርጅቱ ያለው የሠራተኛ ብዛት	ለድርጅቱ የተሰጠ ነጥብ	ምርመራ
1	ኤሲሲኤ/ACCA	5	9			
2	ኤም.ኤ. ኖሯቸው ኤሲሲኤ በመማር ላይ ያሉ	13	7			
3	ቢኤ ዲግሪና በላይ	11	6			
4	ዲኘሎማ ኖሯቸው ኤሲሲኤ በመማር ላይ ያሉ	11	5			
5	ዲኘሎማ	10	3			
ድምር		50	30			

ለ. <u>የሠራተኛ ብዛት 20%</u> ከፍተኛ የሠራተኛ ብዛት ማለትም 50 ላለው 20% በሚል መስፈርት መሠረት: - ምሣሌ 40 ሠራተኛ ያለው 40/50 X20 = 16%

<u>(ዝርዝር መያያዝ Aለበት)</u>

ለድርጅቱ የተሰጠ ነጥብ _____

ሐ. <u>የደመወዝ ስኬል 10% /ለአዲተሮች/ (ዝርዝር መያያዝ Aለበት)</u>

ተ.ቁ	የሥራ ደረጃ	ከፍተኛ የሠራተኛ ብዛት	የደመወዝ ስኬል (በብር)	የሚሰጠው ነጥብ	ድርጅቱ ያለው የሰው ኃይል	ለድርጅቱ የተሰጠ ነጥብ	ምርመራ
1	ጄነራል/ሲኒየር/ ማናጀር	1	ከ7000 በላይ	2			
			ከ500 እስከ 7000	1			
2	አዲት ማናጀር	4	ከ5000 እስከ 7000	2			
			ከ3500 እስከ 5000	1			
3	ሲኒየር አዲተር	8	ከ3500 እስከ 5000	2			
			ከ2500 እስከ 3500	1			
4	የቡድን መሪ/አዲተር/	20	ከ2500 እስከ 3500	2			
			ከ1500 እስከ 2500	1			
5	ረዳት አዲተር	17	ከ1500 እስከ 2500	2			
			ከ1000 እስከ 1500	1			
ድምር		50		10			

መ. <u>የሥራ ልምድ 20% (የሥራ ልምድ ከማህደር መመልከት)</u>

ተ.ቁ.	የትምህርት ደረጃ	ከፍተኛ የሠራተኛ ብዛት	የአገልግሎት ዘመን										ጠቅላላ የተሰጠ ነጥብ	ምርመራ *ከፍተኛው ነጥብ(
			ከ20 ዓመት በላይ 6		ከ16 – 20 5		ከ11 - 15 4		ከ6 - 10 3		ከ5 በታች 2			
			ያለው ብዛት	ነጥብ	ብዛት	ነጥብ	ብዛት	ነጥብ	ብዛት	ነጥብ	ብዛት	ነጥብ		
1	ኤሲሲኤ ACCA	5												6
2	ቢኤ፣ ኤም.ኤ. እና ኤሲሲኤ በመማር ላይ ያሉ	13												5
3	ቢኤ ዲግሪና በላይ	11												4
4	ዲኘሎማ እና ኤሲሲኤ በመማር ላይ ያሉ	11												3
5	ዲኘሎማ	10												2
ድምር		50												20

<u>ማስታወሻ</u>

* ነጥብ አሰጣጥ ኤሲሲኤ ያለው/ያላት በየሥራ ልምዱ በቅደም ተከተል /ከላይ እስከ ታች/ ከ 6 እስከ 2 የሚወርድ ነው::

ምሳሌ ከ20 ዓመት በላይ ብዛት 1 ቢሆን 1/5 X 6 = 1.20

ከ16 – 20 ዓመት ብዛት 2 ቢሆን 2/5 X 5 = 2.4

ከ11 – 15 ዓመት ብዛት 5 ቢሆን 5/5 X 4 = 4

ከ6 – 10 ዓመት ብዛት 2 ቢሆን 2/5 X 3 = 1.2

ከ5 ዓመት በታች ብዛት 0 ቢሆን 0/5 X 2 = 0

ከፍተኛ የሚሰጠው ነጥብ 6 ስለሆነ 6 ይሰጣል::

ሠ. <u>የሰው ኃይል ልማት 10% (ማስረጃዎችን መመልከት)</u>

	<u>የሚሰጥ</u>
- ኤሲሲኤ ለሚያስተምር (ብዛት 3)	3
- ዩኒቨርስቲ /ኮሌጅ/ (ብዛት 3)	2
- የኮምፒውተር ሥልጠና (ብዛት 3)	2
- ወርክ ሾኘ እና ሴሚናር (CPDቢያንስ ለ3 ሠራተኛ የሰጠ)	<u>1</u>
	<u>10</u>

ያገኘው ነጥብ _____

ረ. <u>ሌሎች ጥቅማ ጥቅሞች 10% (ማስረጃዎችን መመልከት)</u>

ተራ ቁ.	የጥቅማ ጥቅም ዓይነት	የሚሰጠው ድጋፍ	ከፍተኛ ነጥብ	አስተያየት	የተሰጠው ነጥብ	ምርመራ
1	ለትምህርት	100%	4			
		50%	2			
2	ለህክምና	100%	2			
		50%	1			
3	ለመድን	24 ሰዓት	1			
4	ኘሮቪደንት ፈንድ		1			
5	ሌሎች (የመዘዋወርያና የቤት Aበል፣ ነዳጅ)		2			
ድምር			10			

2. <u>አጠቃላይ የድርጅቱ ሁኔታ 40%</u>

ተራ ቁ.	መግለጫ	የነጥብ ክፍፍል	አጠቃላይ ነጥብ	ሙሉ ነጥብ ለማግኘት የተቀመጠ	የኦዲት ድርጅቱ አቋም	የተሰጠ ነጥብ	ምርመራ
1	የተጣራ ሀብት (net equity) የ2003 በጀት ዓመት	12	12%	ከብር 400,000 በላይ			
	(የታደሰ ንግድ ፈቃድና TIN ሰርቲፊኬት)	10		ከብር 300,000 - 400,000			
		8		ከብር 200,000 - 300,000			
		6		ከብር 100,000 - 200,000			
		4		ከብር 100,000 በታች			
1.1	በሙያ ምክንያት ለሚከሰት ጉዳት የመድን ዋስትና	5	5%	ከብር 500,000 በላይ			
			2.5%	ከብር 500,000 በታች			
			0	የሌለው			
2	የቢሮ አደረጃጀትና ይዘት		12%				
	ሀ. የቢሮ ብዛት (ለዐዲት ሥራ ብቻ)	8		ከ8 ቢሮ በላይ			
	ለ. ሌሎች ድጋፍ ሰጪ						
	• የፀሐፊ ቢሮ	2		ካለ			
	• መዝገብ ቤት	1		ካለ			
	• የቢሮ አመቺነት	1		ካለ			
	ጠቅላላ						
3	የቢሮ እቃዎች (ዝርዝር መያዝ Aለበት)		12%				
	ሀ. ኮምፒዩተር	5		3 Eና ከ 3 በላይ			
	ለ. ኘሪንተር	3		1			
	ሐ. ፋክስ ማሽን	3		1			

	መ. የፎቶ ኮፒ ማሽን	2		1			
	ሠ. መጠረዣ ማሽን	1		1			
	ረ. ከETC የተገኘ ኢ-ሜይል	2					
	ጠቅላላ						
4	የሪከርድና ማህደር አያያዝ		2%	ሪፈረንሲንግ ቁምር			
5	የአዲት ደንበኞች ብዛት በዓመት (2003) ወይም ያለፉት ሶስት ዓመታት Aማካይ		10%	20 Eና ከ20 በላይ ከሆነ			
6	የአዲት ደንበኞች ክልላዊ ሽፋን		7%	ሦስትና ከሶስት ክልሎች በላይ የሚንቀሣቀስ			
7	የሥራ ማስኬጃ ወጪ (ደመወዝ ሣይጨምር) የ2003 በጀት ዓመት		10%	ከ100,000 በላይ ከሆነ			
8	ዓመታዊ የአዲት ገቢ (የ2003 በጀት ዓመት)		10%	ከብር 250,000 በላይ ከሆነ			
9	ቅርንጫፍ ጽ/ቤት		5%	2 Eና ከ2 በላይ ቅርንጫፍ ጽ/ቤት ካለው			
10	ድርጅታዊ መዋቅር (Personnel manuals and Hiring forms)		3%	ድርጅታዊ መዋቅር			
11	የአዲት ማኑዋልና ሌሎች (Quality Assurance Framework) - Independence - Review system - Peer review - GAAS/ISA		12%	የአዲት ማኑዋልና ሌሎች ካለው 10% - Oዲት ፕሮግራሞችና መጠይቆች ብቻ ካለው 5% - ፒር ሪቪው ያስደረገ 2% - ምንም ከሌለው ዜሮ			
			100%				

አጠቃላይ የነጥብ ውጤት

ተራ ቁ.	መለኪያ	100%	60%	40%
1	የሰው ኃይል			
2	አጠቃላይ የድርጅቱ ሁኔታ			
ድምር				

የOዲት ድርጅቱን የተመለከቱት (የገመገሙት)፡ -

Aቶ ታዲሎ ቸኮል _____

Aቶ ሻሸ መኮንን _____

ወ/ሮ ትEግስት ሚሊዮን _____