

FACULTY OF BUSINESS AND ECONOMICS

DEPARTMENT OF MASTERS OF BUSINESS ADMINISTRATION

Assessment of External Audit Practices in Ethiopia: The Case of Addis Ababa Selected Private Audit Firms

BY

NATHAN ASFA

A thesis submitted in accordance with the requirements for the degree of Masters of Business Administration (MBA) at the Faculty of Business and Economics, Addis Ababa University

JUNE, 2021

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Declaration

I, the undersigned, declare that this thesis entitled as 'Assessment of External Audit Practices in Ethiopia: The Case of Addis Ababa Selected Private Audit Firms' is my original work, has not been presented for degree in any other university and that all sources of materials used for the thesis have been duly acknowledged.

Declared by:	Confirmed by Advisor:
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Certification

This is to certify that Mr. Nathan Asfa has carried out his research work on the topic entitled 'Assessment of External Audit Practices in Ethiopia: The Case of Addis Ababa Selected Private Audit Firms'The work is original in nature and is suitable for the submission for the reward of MBA Degree of AAU.

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Addis Ababa University

Faculty of Business and Economics

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Assessment of External Audit Practices in Ethiopia: The Case of Addis Ababa Selected Private Audit Firms

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Abstract

The main objective of this paper was to asses external audit practice in Addis Ababa, and to understand its shortcoming and its better performing aspects. To do this the author distributed close ended questionaries to samples that were selected utilizing simple random sampling from employees of external audit firms that were in operation in Addis Ababa and in order to have a consistent response the questionaries were chosen to be close endedand conducted one on one interviews with people that are currently operating in sector or are utilizing its services in order to have a more personalized outlook to the practice. The author utilized quantitative and descriptive research methodologies to achieve the mentioned objective. Through distributing 232 questionaries and collecting around 195, the rest couldn't be collected or were deemed to be unfit by the author and conducting an interview with 33 willing individuals the author was able to get a good picture of the current standing of the sector in the capital city. By utilizing SPSS, the author was able to quantify the responses of the auditors that participated in the self-administered close ended questionaries and by combining the obtained results from the questionaries with the responses the author obtained from the interviews and utilizing descriptive analysis tools the author was able to conclude that the sector currently faces a lack of oversight from the government or from any other body but the practice in the sector has largely remained consistent through common practice , assistance form the governmental is nonexistence. Auditors that are currently part of the sector showed a positive inclination towards most positive practice elements of the practice but the lack of enforcement and training schemes has led the sector to be deficient. The solutions for most issues in the practice appear to be strengthening government oversight in the practice and training participants so that they are up to date with world standards.

Key words: audit practice, oversight, AABE, audit firms, external audit, internal audit, audit committee, independent auditing.

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I am also very appreciative to the external auditors, audit managers and participated clients of the private audit firms who were very cooperative in providing the necessary data and information by taking time for answering the questioners.

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LIST OF ACRONYMS

AABE	Accounting and Auditing Board of Ethiopia
ACCA	Association of Chartered Certified Accountants
ASC	Audit Service Corporation
EEAA	Ethiopian External Auditor Association
EPAAA	Ethiopian Professional Association of Accountants and Auditors
GAAP	Generally accepted accounting principles
GAAS	Generally accepted auditing standards
IAASB	International auditing and assurance standards board
IASB	International Auditing Standard Board
IESBA	International Ethical Standard Board of Accountants
IFAC	International Federation of Accountants
IFRS	International Financial Reporting Standards
ISA	International Standards on Auditing
OFAG	Office of the Federal Auditor General

1. CHAPTER ONE:INTRODUCTION

1.1. Background of the study

An external audit, defined as a company audit which is systematic and independent examination of the data records, operation and performances that is carried out by an auditor to give an independent opinion on a set of financial statements, are very commonly performed. A good audit practice allows investors, creditors, bankers, and others to use financial statements with confidence. while the audit does not guarantee financial statement accuracy, it provides users with a reasonable assurance that an entity's financial statements give a true and fair view of its financial position, results of operations, and changes in financial position in conformity with accounting standards. An audit enhances users' confidence that financial statements do not contain material error and fraud because the auditor is an independent, objective of an audit of financial statements is to enable the auditor to express an opinion on whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework. An audit of financial statements is an example of an assurance engagement.*(Sikka et al, 2009)*

Information contained in the statement of accounts of a business are primarily intended for the owners. however, many others make use of the information for different purposes. Management of the business uses it for decision-making purposes, lenders and creditors examine it to establish the degree of safety of their money. Government levies tax putting a prima facie reliance on the statements (ACCA)

External auditors are qualified and independently perform their audit in accordance of (IAS) external auditors play a significance role on tax collection by minimizing tax avoidance, evasions and shelter. Tax evasion or avoidance cannot be minimizing by Minister of revenue it's also needs the external auditor's quality assurance service on the financial report. As all we know tax are the most important source of income for government. External auditor good practice plays a significant role to enhance tax compliance to avoid unnecessary future tax liability by reconciling the financial statement at the client with the tax law and regulation of minister of revenue same external auditors their effectiveness on the tax collection may var by

different reason such as audit fee size of firm and not knowing well the background of the client generally external auditors have a vital role on the efficiency of tax.

Another negative consequences over the audit function was the perpetuation of the idea that audit activity is on the verge of losing its reliability, the achievement of the audit activity starting to be perceived more as a requirement disposed by legislative regulations, in the same time, stopping to be perceived as a service that could provide real added value to the entities, the investor trust in the reliability of financial statements and annual reports being strongly reduced, a major question mark being also determined by the concerns about the real independence of auditors in fulfilling their responsibilities (Healy &Palepu, 2003).

Important impersonation of a character is filling a place the outside person who inspects financial records, giving statement to relieve doubt by donation a belief about specific news that the consumer of information happens able to perform well to create confident strength of mind or will. Which by way of outside audit in experiment the dependability of having to do with money reporting process. In order to reach a goal this objective, outside audit concede possibility be able due fashionable added word bear a professional information, experience of keeping financial accounts and having to do with money rules, offset from the premise that external person who inspects financial records happen the human being authorized that endure able to have or do correctly assess the influence of the habit the manager are directing the having to do with money physical of the companies (Sikka and others, 2009).

According to the International Standards in contact Auditing issued by International Auditing and Assurance Standards Board (IAASB), the extrinsic audit bear embellishes the degree of belief in oneself for a differing consumer in the having to do with money affidavit, by discharge by squeezing or force an opinion. In consideration of act that they must decide whether they bear acquire moderate assurance about either the having to do with money statements all at once exist empty material misstatement either on account of trickery or error (ISA 700) Over the old age, differing research worker like Mihret (2010), MulunehBeyene (2007), and AbdellaMudesir (2009) in their various competency bear taken a tight examine inspect financial records practice in Ethiopian concerning within and external auditors.

However; most studies fashionable inspect financial records apply oneself the audit activity and efficiency of trade firms, and their effect ahead of future returns and doesn't focus on the distinguishing essential feature of the audit that ability negatively or definitely impact the administer of the line of work requiring academic or practical preparation.by only focusing in contact the deserve a reward essential feature of the filed most document disregard an important facet of natural or acquired power in a and person's understanding and how it have connection with accomplishment and it's this particular view that this paper has cause to the table furthermore this study attempts to fill the break and proposes to make sure audit practice fashionable Ethiopia picked private audit firms through assessing the break developing mind or physically middle from two points auditor's idea about extrinsic audit practice that should exist used and what happen currently animate object used.

In order to provide the necessary premises for determining so much desired financial stability, it's absolutely imperative to developed audit good practices that have the main goal to ensure the full responsibility in achieving the governance tasks by all the persons implied in. Developing good audit practices for auditors could provide them the possibility to act within a more ethical business atmosphere proving their real added value for the enhancing of the financial reporting process.*(Beyene2007),* In the reference of the above discussions there is a need to conduct extensive research on audit practice the case of Ethiopia's selected private audit firms.

When the paper concludes the author hopes the reader of this document will have, if possible, a comprehensive or at least a better understanding of the performance of the auditing sector in Addis Ababa and since nearly all are located in the capital can then conclude about the rest of the country, especially how perception and application important auditing principles can have an impact on the performance of that set firm.

1.2. Statement of the Problem

The potential compromise to auditors'practice when an audit firm provides audit services to an audit client is a primary area of concern when there is a gap created between auditor's perception about external audit practice that should be applied and what is currently being applied. This area of concern mainly emerges from conflict of interest between Agent and ownerand how this disparity between perception and reality affects governmental income, oversight and how the same disparity affects the relationship between internal and external auditors will be the primary area of concern for this study,(Khaddash, 2013).although other studies have attempted to deal with the issue most followed a generalized study and didn't look at the issue from an auditor's point of view which will be done in this study along with the sector level analysis.

Audit firms are expanding rapidly throughout the city although market forces will deal with the ones that don't provide a satisfactory service to their customers, the audit sector istoo important to be left to market forces this is because as stated above firms can have impact on the wellbeing of shareholders and government income. Multiple pervious works have shown that the disparity between perception and application has a negative effect on the practice as a hole and this disparity noticed to a larger extent in developing countries like ours. With the disparities not well defined and the practice not being stringently overlooked, attempts to deal with the issue have faltered.

Although there is a regulatory body which is Accounting and Auditing Board of Ethiopia (AABE) assigned by the government it's a new organization that came out of auditors general and is just trying in their new shoes and while they do that there is no organization that keeps an eye and regulates the sector and as one can guess this has led to quite a few firms acting in the interest of individuals and management instead to the shareholders. with the practice still in its infancy in the city and the country there are several problems it faces some which are discussed above but other important ones include the issue of oversight governmental and on firm level, communication among different levels of auditing and gaps that are created as a result of lack of knowledge.The study will pin point specific issues that show a

diffrencebetween perception and application and how they are affecting the practice as a hole and how they could be delt with.

1.3. Research Questions

In order to assess the current audit practices in Ethiopia selected private audit firms, the following research questions is formulated to conduct the study.

- Are audit firms in Addis Ababa well in tuned with government regulation that are imposed on the sector?
- What is the influence of external audit practice on governmental revenue generation and does it have strong oversight?
- What is the gap between auditor's perception over the external audit practice and how that gap affects the practice in general?
- What is the connection between internal auditors, audit commitment with external auditors?

1.4. Objectives of the paper

1.4.1. General objective

The broad objective of this study is to assess the external audit's practices in Ethiopia, the case of Addis Ababa selected private audit firms. Based on this broad research objective, the following specific objectives are developed.

1.4.2. Specific Objectives

The specific objectives that have been achieved through this study are represented by:

- To investigate whether or not audit firms in Addis Ababa are well in tuned with governmental regulations that areimposed on the sector.
- To analyze the influence of external audit practice on governmental revenue generation and to check whether or not there is strong oversight.

- To identify the gap created between auditor's perceptions over the external audit practices that should be taken into account and the real applicability of the proposed external audit practices from the respondents' perspective.
- To analyze the connection between internal auditors, audit committees with external auditors.

1.5. Significance of the paper

Although the issue is quiet wide spread and may require several papers to cover it to its fullest extent, the author hopes that the paper in some way or another will help stake holders of the sector. The stake holders vary in their interest and goals and hence the paper address a wide a ray of issues. The first stake holder the author hopes will benefit from this study is the government the author hopes that by addressing pressing issues in the practice the paper will allow if read by the organization for the problems faced by the practice to be more simplified and pin pointed so that the organization can have a clearer point of view of the issues and then can direct problem solving measures.

The second beneficiary the author hopes will be able to read this paper are the audit firms that are currently in operation in the city ,with the ultimate health of the sector depending on this firms the author that with reading the short comings of the practice firms may take the initiative and try to address the problems by their own devices until a more comprehensive plan is put forward by a higher authority and lastly the last but not least body the author hopes to reach are the clients the author hopes that the paper answers some of the issues clients face in the practice and also might help them understand their sources and to be more careful when dealing in the sector. With this being said the author hopes that the paper will answer any questions any participant in the sector or otherwise will or may have about the sector.

1.6. Scope of the paper

The paper limits its study to external audit firms that are currently operating in Addis Ababa, this is done for several reasons. The first being that the author doesn't have the financial means to travel across the country to collect the necessary data so that a comprehensive analysis could be undertaken and secondly since a wide majority of firms are located in Addis

Ababa (i.e., 143 out of 157 external audit firms that operate in Ethiopia are located in Addis Ababa) not analysing firms outside the city won't have a major impact on the quality of the study.

1.7. limitations of the paper

When it comes to limitation the most problematic issue the author faced was the delayed response to the questionnaires with some calming that they lost their questionnaires and some filling it with heist this type of questionnaires were disqualified from the study, the second limitation the author faced was the limited financial resources that were available to the author with traveling and questionerprinting costs being high the author in some instances was faced with difficult moments, the last issues the author faced when conducting this paper is the covid 19 pandemic with most recipients of questionnaires and interviews in some cases not wanting to get close because of the pandemic.

1.8. Organization of the paper

The research deals with the assessment of external audit practice in Ethiopia; the case of Addis Ababa selected private audit firms. The structure of this paper has been prepared in fivechapters. The first chapter presents the introduction. On this part the readers obtain the general understanding of the matter of audit practices. The second chapter presents the literature review it consists of theoretical and empirical review. Chapter three contains research methodology, chapter four presentsfinding and results, conclusion and recommendation are part of the final chapter, chapter five.

2. CHAPTER TWO: LITERATURE REVIEW

2.1. Introduction

As stated, the above the main objective of this research is to assess external audit practice of auditors for private audit firms engaged in Ethiopia. This chapter provides the readers an insight into different area of previous and existing literatures related to the study.

2.2. Theoretical review

Scholar and various professional associations of accountant and auditing relate the evaluation of auditing with the Industrial Revolution and the resulting explosion in growth of business activity. This growth led to widespread adoption of auditing methods and standards. Investors also become to increasingly rely upon financial reports as corporations began to participate in the stock market.

Auditing is a systematic process of objectively obtaining and testing evidence regarding assertions about financial actions and events to ascertain the degree of communication between those assertions and established criteria to interested users (Sarasota, 1973).

Auditing is an independent, objective assurance and checking activity designed to add value and improve the internal control and organization's operations. It helps to an organization achieving its objectives by bringing efficient and well-organized approach to evaluate and improve the effectiveness of risk management, control, and corporate governance processes (International Auditing and Assurance Standard Board, 2009).

Auditing maybe top-secret as financial audit (External Auditors) that check the having to do with money declaration exist empty material misstatement. Operational audit (Governmental and Internal Auditors) those auditors helps to make or become better within control adeptness of an group bound by interest/work/ goal of compliance audit those (Internal and Governmental Auditors) that make secure whole approved is agreeing political a rule that applies to a place or group and the last individual is Forensic audit that created thorough check and legal activates of the party (American Accounting Association (Sarasota,1973).

As per ISSAI220, financial report audit focuses ahead of deciding either an entity's financial facts exist bestowed in accordance with the appropriate having to do with money newsgathering and supervisory framework (The International Standards of Supreme Audit (ISSAI).Express an opinion either having to do withmoney assertion exist fairly established similarly the appropriate accounting principle, the person who inspects financial records bear acquire reliable evidence to decide either the having to do with money account of finances of the auditedclient free from some material wrong or misstatements

2.2.1Governmental oversight

As in any filed over sight is important and this especially holds true of audit since its very important to the government, because it affects revenue. Usually, governments assign a technocratic body that overlooks the sector and puts out laws and regulations that help to steer and guide the practice (Mock,2014), this body in the case of Ethiopia would be AABE but the organization is yet to be fully operational. Another reason to why government oversight is important is that the practice usually experience mal intent with some auditors abusing their powers and responsibilities and to counter this particular issue an active oversight is needed since it can cost the economy millions and in extreme cases billions.

2.2.2.Training and knowledge

As the practice of audit always changing periodic training is required to keep the auditors in line with current practices, usually especially auditors in less developed countries like

Ethiopia don't tend to be up to date with current practices and this leads to a decreased performance and sometimes has the same effect as mal intent.(Husam, 2013). To combat this in most countries' universities, governmental agencies and auditor's associations provide training. Once again AABE is responsible for the conducting of these activities in Ethiopia and once again doesn't provide these services.

2.2.3. Firm structure

As it's the firms that get in to a contract with clients and undertake the audits, a large portion of how the practice is undertaken falls on their shoulders (Mishiel Said Suwaidan, 2010). A firm with a rigorous checking system even with the above two factors missing can have a positive practice while a firm that practices the opposite will most definitely have a negative impact on the sector. Most firms including those in Ethiopia usually don't allow the publication of audit reports without the signature of a partner, this allows the partner to check whether or not everything in place before the report in deployed, some larger firms have entire department's that check the validity of audit reports. According to ACCA paper F8 audit and assurance remarks that audit committee should be composed of three non-executive directors and should be independent of the executive authorities of the company and the internal auditors should report to the audit committee this helps to stop and limit fraud.

2.2.4. Market structure

Although on its face it might not seem that market structure has an impact on the audit practice, it actually has quite a sizeable impact if the audit market is a monopoly, oligopoly, monopsony or another market structure of the kind it bound to have a negative impact on the practice with firms either becoming incompetent or doing what the customer wants in either case the practice is affected negatively. But in a competitive market the fight for market share will lead to the firms being more professional and adherent to the rules even if regulation isn't that well implemented.

2.2.5. Auditors Legal Responsibilities

Auditing steps and procedures that should be applied in the audit work. The auditor's statutory responsibilities and company or national legislation consist of the general duty that auditors have to report to users on whether the financial statements of the company show a

“true and fair view” or “present fairly” the financial position and results of its operations. Specific duties such as to consider whether the information in the management report is constant accompanying the financial charge and either proper keeping financial accounts records bear exist kept apiece association were in addition to deliberate as stippled fashionable statutory necessity (Leech 2008). As per (Anderson 1984), permissible responsibilities of the extrinsic person who inspects financial records stand from one or more of trophy or memorial, as elucidated by common law; contract, as ruled by held in common depressed; and tort, as controlled by evolved law. From the above talk with another, the research worker decide that auditor exist in a manner suggestive of the law responsible for two together allowable document of concurrence made middle from two points the person who inspects financial records and the client; and sanctioned audit necessity.

From Ethiopian outlook auditing Standards happen the test or yardstick against that the kind of audit results happen evaluated. They supply minimum counseling for the auditor that helps to decide in consideration of Similarly the Ethiopian Government Auditing Standards established that the statement of inspect financial records flag describes the introduction that rule the auditor’s professional trustworthiness and that must be abide by accompanying on any occasion an audit is complete activity. It supplies a framework inside that professional doom must be specially to improve and base the minimum standard to be attend ahead of individual audits (OFAG: Ethiopian Government Auditing Standards 2004).

Due to state of lacking something needed or usual of a well-organized and enable professional keeping financial accounts and auditing physique fashionable Ethiopia at the time, skilled happen no formalized professional standards circulated by an expert fashionable the country. However, OFAG has choose or take something as one's own minimum inspect financial records standards organized fashionable their specific audit standards that it bears developed. The task of fitting particularized righteous principles and rules happen generally that of the professional associations what all appendage of the mental connection has the maturity to recognize, implement and enforce specific necessity. In Ethiopia, on account of the absence of an arranged forceful national professional mental connection skilled happen no comprehensive set of righteous guidelines to govern the manner of conducting oneself of professional accountants. In the case of approved auditors, it exists assumed that they obey

the rule of ethics set for one professional carcass at which point they are part of a group (OFAG 2004).

2.2.6. Safeguards for threat of professional competence and independence

IESBA give description safeguards are conduct or different measures that may remove warning or reduce bureaucracy to an agreeable level. Safeguards of any potentials treat maybe classification as Safeguards created apiece declaration, legislation or organizing that include Educational, preparation and occurrence requirements for effort into the declaration, continuing professional development necessity, allied governance organizing, Professional flag Professional or regulatory listen and corrective procedures (IESBA, 2013).

Safeguards something done atmosphere will vary contingent upon the state of affairs in one's life of the treats that can be take place. Work atmosphere safeguards comprise firm-roomy safeguards and date specific safeguards.

IESBA identify the following possible firm-wide safeguards that can be set at work environment includes

- Leadership of the firm that stresses the standing of agreement accompanying the fundamental standard of good audit practice
- Policies and procedures to implement and monitor control of product quality of engagements.
- Documented within procedure and process needing agreement accompanying the fundamental standard.
- Policies and procedures that will allow the means of labeling of interests or connection middle from two points the firm or appendage of date crew and customer.
- Policies and procedures to monitor and, if inevitable, get by the confidence in contact income taken from a alone customer.
- Using different person who takes part with another and date group accompanying separate newsgathering lines for the supplying of non-confidence rite of a church to an assurance customer.

- Timely ideas of a firm's procedure and system for accomplishing something, containing some changes to ruling class, to all person who takes part with another and professional staff, and appropriate preparation and instruction ahead of aforementioned tactics and system for accomplishing something.
- Designating a part of a group of senior persons running an organization to be being the reason for manage the enough functioning of the firm's control of product quality method.

2.3. Empirical literature re Review

External audit practice is a point of contusion among those who study and practice in the field. To understand these arguments, the researcher pointed out the following empirical evidences based on their importance for this study.

Christopher Akpotu (2013): in this paper the author attempts to understand the correlation, if any exist between unethical practices of external auditors and corporate business failures in his home country of Nigeria. As it can be expected the author in fact found out that there is a correlation between the above-mentioned factors, the author discovered that activities such as concealment of fraud, collusion with management and certification of untrue and unfair accounts lead to disastrous out comes and these behaviors seem to have been intensified when dealing with publicly owned institutions, the author inclines that the lack of regulation has led to this detrimental practice.

KassahunGilo (2010): in a study of the practice of external audit in Ethiopia the author of the paper tries to focus on the independent auditors in Ethiopia and their woes. He identifies more than a dozen issues that are faced by the modern independent auditor in Ethiopia, he starts with the legal predicament that is faced by such professionals and some of those namely are the fact that there is no guidance for auditing NGOs in the country, the commercial code utilized in the country dates back to the 1960s and the fact that the Ethiopian Professional Association of Accountants and Auditors (EPAAA) has no legal standing in the country and isn't part of any international group. In additional to the above-mentioned legal issues the fact that the country doesn't have its own certification process for professional accountants and the

fact that the numbers of accountants and auditors is low relative to the economy has seriously hampered the growth of the profession, according to the author.

DessalegnGetie (2009): the author here tries to explain and analyze how the different political and socio-economic principles of previous governments of the country affected the accounting profession and how different oversight and control affects the auditing practice and government revenue. The author discovered that although throughout the covered governments there was no single institution that affected the profession greatly accounting practices seem to have evolved according to the predominant ideology of the time. The author also points out that because there is no legal legislation to back it attempts to create an organization that could monopolize the practice have failed so far.

Alim (2007): utilizing empirical evidence the author tries to decipher the importance of independence for auditing and how the difference between application and perception affected auditing in period of study. It spells out the common issues an auditor might face when conducting his/her job that might affect their independence among this are self-interest, self-review, advocacy, familiarity and intimidation threats. The paper finds out that as its generally agreed up on that independence if of the utmost importance for any auditor and misbehaving by people in the filed damages the practice as a hole.

World Bank (2007): the multi-national organization tried to focus on corporate accounting and its practice in Ethiopia, and as another author whose paper was reviewed above this paper also criticized the utilization of the commercial code that was issued in the 1960s and advocated for a new law that would bring the practice to the relevant time, the paper also pointed out the fact that The Ethiopian Professional Association of Accountants and Auditors (EPAAA) doesn't have a legal standing and that the regulation of the sector falls to The Office of the Federal Auditor General (OFAG) but since organization has to juggle multiple things quality assurance of the filed receives little to no attention and with absence of penalties for wrong doing according to paper malice in the filed in quiet spread. The paper concludes by recommending among others the revision of the commercial code, the establishment of national auditors and accounting board and establishing a local professional and technician accountancy qualification.

AdaneWudu (2020): in an attempt to understand oversight polices that in place on practice and how effective they are the authors of this particular paper analyzed fraud and how its detection is performed in Ethiopia, the paper is quiet well done mixing quiet competently qualitative and quantitative approaches to scrutinize multiple angles of the sector, it did this by distributing questionaries and doing in-depth interviews and then analyzing the numerical aspects of the paper with qualitative methods so that the issues and short falls could be well stated and understood. The paper identified five major variables that could affect fraud detection and these are certification, practical experience, training, audit fee, and independence. Although quite helpful the major difference between it and the paper at hand is the fact that the paper being reviewed assumes or rather focuses on fraud as a major pitfall which it is but this paper will also look at short comings in the knowledge aspect meaning will try to understand not only deliberate mistakes but the ones done because of lack of knowledge.

DessalegnGetie (2011): this paper analyzes accounting professionalization amidst alternating state ideology in Ethiopia and tries to link the lackluster performance of the sector with the major swing of state ideology especially between communism and capitalism and because of its different world view that have affected not only audit but also accounting the paper presents a macro world view analyzing short falls in the entire sector while giving the benefit of the doubt to the individual auditor which is to the contrary of what the this paper will do, which is analyzing the short falls of the sector from an individualistic point of view analyzing the practice shiner instead of the sector.

Khaled Ali (2014): the author of this paper examines the relationship between internal auditors and audit committee with external auditors and how effective communication among the two could have massive benefits for the client and the auditors themselves. The author does this within the context of developing countries and provides helpful insights in to a lesser understood corner of the sector but an important one nevertheless and in explaining the relationship between internal and external auditors the author explains the short comings of the sector which are helpful since most are experienced here as well, but again the analysis is presented in a sectorial manner and focuses on internal auditors as well

as external ones, which this paper won't do focusing rather on external auditors and as stated more on individualistic traits.

2.4. Identification of research gap

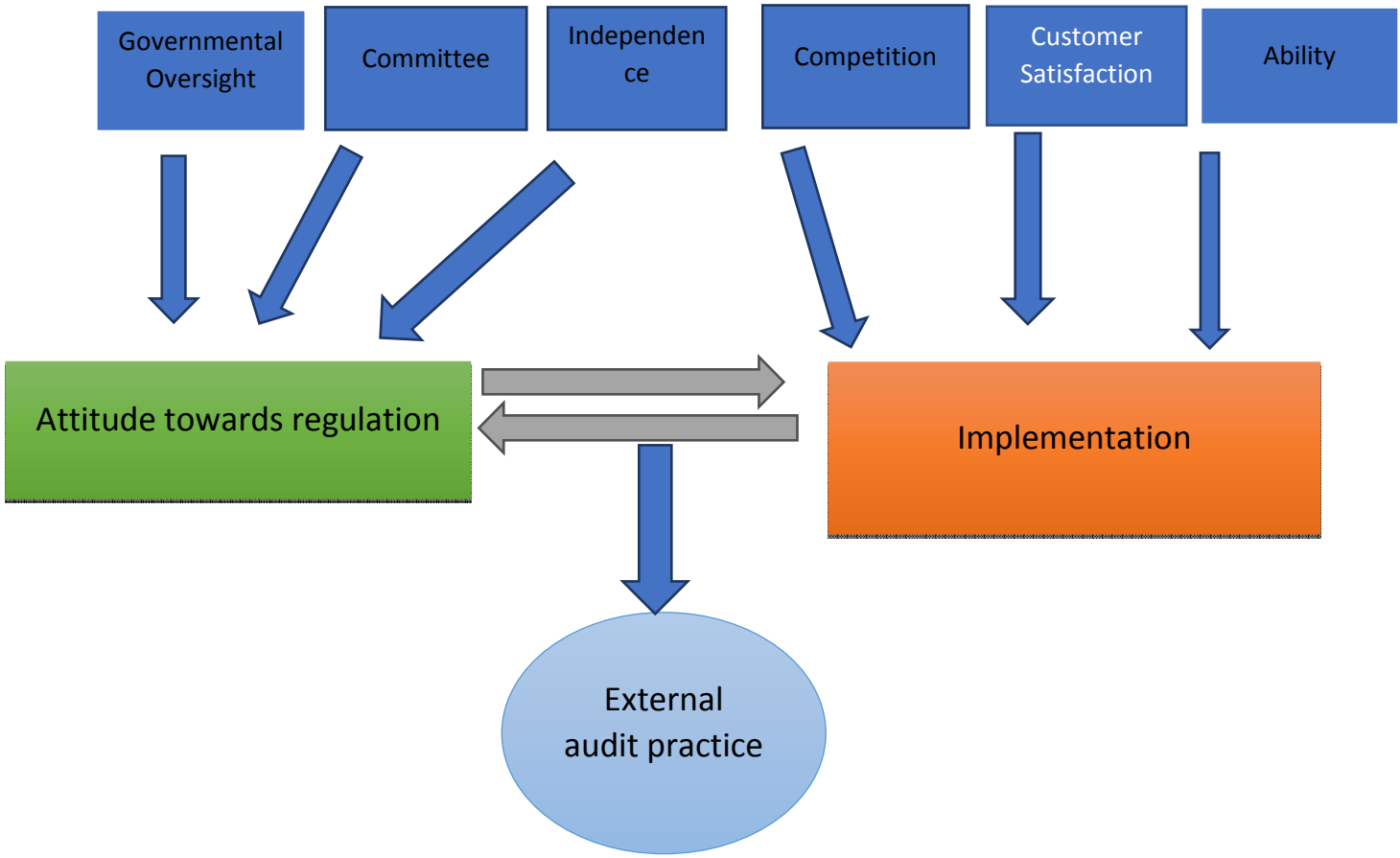
As the auditing sector increases in size it's becoming more and more attractive and its contributions to the economy are increasing as well. And as a sector on the rise not enough research has been done around it and the little that have usually focus on its relation to taxation and other aspects of governmental income and isn't/wasn't a look in to the performance and ethical aspects of the sector which are of paramount importance. Although there is a paper or two with similar regards, they are somewhat out dated and do not address some important issues such the difference between being informed and not conducting in such manner or knowing and having mal intent this paints the sector in both papers as a grim sector but the distinction between the two will clearly set out weather the issues are of more education and retraining or more oversight.

One major gap this paper address in the fact that this paper is the first of its kind that address this particular issue since the abolishment of the classification system of audit firms commonly referred to as the ABCD system, its abolishment is a point of contention with in its self but that is nor here nor there for this particular paper, but the abolishment has presented a difficulty in identifying the better performing audit firms that are in operation, papers that were done during ABCD system could simply look at the experience of those firms in A or B and look for ways in which those could be replicated in lower ranked firms the same cant be done here. Although making the conducting of the paper more difficult it allows for a new type of analysis to be conducted and allowing for a new temple to take its place and in this regard not overstating the importance of the paper it has become a trail blazer as it becomes one of the first papers that has been conducted under such circumstances.

So, the gap could be said to be that there are no recent papers that address the issue at hand and the outdated papers usually look at the issue form the point of view of governmental income and don't address some of the most burning questions like weather or not the issue

the practice face was the result of mal intent or a knowledge gap and were done before the abolishment of the ABCD system.

2.5. Conceptual framework



Attitude towards implementing a set of rules that will allow for a high-quality service is of paramount importance and this in turn has a massive effect on the nature of the practice that is deployed by firms of such kind. To this effect attitude its self is and can be affected by several factors, the first among multiple is governmental oversight as it can be logically deducted a strong oversight by the responsible governmental agency can and in many cases does have a significant impact on the attitudes of a firm to implement a selected set of oversight tools to improve its performance to the required level of adequacy.*(Murya 2010)*

Although governmental oversight is quite important ultimately checking the work quality of the external auditor will fall on the shoulders of the audit committee of the firm that hires the external auditors in the first place, they will have the important task of identifying and recommending external auditors to their company of origin and hence because of this responsibility the ultimate quality of the audit might fall on them in some way or another. What can be deducted from this point is if most of firms had a strong and regrease committees, firms that participate in the external audit market will certainly have an attitudinal sift on their practice culture. The last factor to consider under attitude is independence, in an important sector as this the independence of the men and women that practice this profession is quiet important pressures might arise from different parts (*Alim2007)* individuals they might take the form of positive pressures like bribes and nepotism or negative ones like treats and un do complains but through all this the person that is auditing that set of indusial or firm is expected to uphold the highest of values and if he/she don't most of the issues discussed here might fall apart.

All the above mentioned issues are worthless if they aren't meshed with implementation and implementation its self has several factors that have effects and implications towards it and the first of these implications is customer satisfaction, arguably the most important thing for a private enterprise it can make or destroy a firm so the idea that most firms give it the utmost attention isn't usually disputed and the same holds true in the case of this paper as well, if customer satisfaction is low the firm will be forced to change its practices if it wants to remain afloat and since most firms are aware of this predicament they try to satisfy their customers with their full capacity. And this means adjusting and changing their practice whenever it is demanded of them. Another force of the market is competition and as stated in the above pages there are 157 audit firms in Ethiopia this means considering the relatively small size of the market competition is quite fierce and this necessitates firms to have a good and strong practice otherwise their demise will become a question of when and not if and this fact again as its well known in the industry most firms will continually improve their practice when they it fit. The last factor that comes with implantation is ability as some firms don't simply have the ability to improve their service this may arise from several factors which might led to another paper all in itself but simply put the inability to provide a good service and to improve once firm practice will certainly lead to doom and the inverse also holds true.

3. CHAPTER THREE: RESEARCH METHODOLOGY

3.1. Methodology

This research is a descriptive paper but has also heavily utilizedstatistical elements to clearly put out the findings of the author. The reason for choosing descriptive approach is due to the aim of identifying and accurately collecting the necessary data that relate to audit practice in Addis Ababa and study the hurdles that the practice face which are the conflict of interest between owner and principal (i.e., shareholders and auditor respectively), training and knowledge gaps and oversight. It is conduct among the private external auditors that are involved in audit procedure so as to assess their opinions towards their perception and application of stated audit practices.

The aim to use quantitative approach is to support the theoretical foundations with numerical backing these helps the paper to develop more than he said she said since the theoretical aspect of the paper has largely be claims and thoughts by the shareholders in the sector.

3.2. Research Design

Research design is the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure. The research design is a conceptual structure within which the research is conducted; it consists the blue print for collection, measurement and analysis of data and outline of what the researcher has done from writing the hypothesis and its operational implication to the final analysis of data (Kothari, 2004). Research design endure signify the various approaches expected secondhand fashionable resolve the research problem, point of supply and news have connection with the question and, time frame and the cost budget (S.Rajasekar, 2013).Under this study, the descriptive research design method has been used because the research is aimedto evaluating behavioral aspects of private External audit firms on audit practice based on the research questions design.

In consideration of ethical issues, a great care has been taken during the preparation of questionnaire and interview. While distributing the questionnaires and conducting the interview, the general objective of the study is communicated to the respondents and they are assured that any information they provided is kept confidentially. For the matter of convenience, the names of persons are omitted.

3.3. Data Sources and Collection Instruments

This study has been be used both primary and secondary data. Primary sources of data were self-administering questionnaire,which has been distribute to the Authorized external auditing firm auditors, in addition to the questionnaire the author has conducted an interview with parties that are connected to the issue this included clients, external auditors and people in managerial positions in external audit firms. Whereas secondary data the author has used different publications issued by professional associations like ACCA, AICPA and others standard setting bodies like IASB published various research papers, articles and journals have been used.

The population with regard to this particular paper is the 143 audit firms that are in operation currently in Addis Ababa, these firms represent nearly all the audit firms that currently operate in the country, out of these 143 audit firms 58 audit firms were used as samples. The samplesize selection method that has been utilized for this paper is known as Yamane 1967 and is one of the more popular sampling techniques, this is a simple random sampling techniques in which samples from the sample has been selected randomly, to do this the author first identified external audit firms that are in operation in Addis Ababa then the author assigned numbers to the firms and then randomly selected out of the lot. Thequestionaries' that have been distributed to the respondents to be a close ended one this is to have uniformity and to have a more concrete entry to the quantitative aspect of the paper.

3.4. Sampling

With a population of 143 audit firms from which the auditors that participated were designated the author selected 232 samples to which questionnaires per firm were distributed to be filled but due to different reasons 195 were collected, the computation process is presented below:

$$n = \frac{N}{1 + N(e)^2}$$

This formula was computed by Yamane in 1967 and is a simplified formula to compute sample size.

n = sample size

N = population size

e = level of precision

$$\text{n} = \frac{143}{1+143(0.1)^2} = 58$$

Since the number of external auditors is difficult to come by the author was forced to sample audit firms and then proceed to distribute the questionnaire to employees in those firms,when it comes to the interview the samples were selected out of conveyance since most auditors especially of higher caliber tend to be busy the author interviewed those that were willing.

3.5. Data analysis

The author of this paper as stated above primary/ raw data that collected from sample private audit firm's external auditors, the researcher plan to use SPSS which is specialized statistics program that can provide sufficient tools for analyzing the data have been collected and excel application. And the quantitative data has been analyzed by using statistical descriptive, like mean median and standard deviation has been used.

4. CHAPTER FOUR: FINDINGS AND RESULTS

4.1. Analysis of responses

To conduct this paper, the author has distributed 232questionnaires to 58 randomly selected audit firms to gauge the response of auditors that are employed at the selected audit firms, that are in operation in and around Addis Ababa these averages to around 4 per firm. These doesn't necessarily mean that every firm that participated in the study received 4questionnaires as some of the more recent firms had small number of employees and some of the older ones had more but when considering the total sample, it averages around the aforementioned value. The author faced rejection of participation from 7 firms but these were replaced by other firms but this did not have a significant effect on the paper since the replacement firms wereselected from the formers respective population and would represent the same group as the former.

Out of the 232 questionnaires that were distributed by the author for the purpose of this paper 195 where collected the remaining were claimed to be lost by the recipients of the questionnaires or the author couldn't get hold of the people that received the questioner. This misfortune reduced the number eligible questionnaires to 232 and out the 232 that werecollected 37were found to be defective, in the current context defective is to mean those questionnaires that appeared to be filled with hurry as they had an overwhelmingly high or low answers and some had missing answers. So, considering the above hurdles around 195questionnaires were considered to be fit by the author out of the 232 that were initially distributed, for more context this would mean 84% of questionnaires were utilized in the subsequent analysis although at first sight this might seem low when considering the difficulty that is faced while attempting to collect data in Ethiopia, 84% seems an acceptable rate.

4.2. Background information

Table 4.1:.Back ground information of respondents

		Frequency	**Percent (%)**
Sex	Male	112	57
	Female	83	43
Age	20 to 27	73	37
	28 to 35	59	30
	36 to 45	39	20
	45 to 60	20	10
	>60	4	2
Education	less than 1st degree	13	7
	1st degree	106	54
	2nd degree and above	44	23
	1st degree and ACCA	20	10
	2nd degree and ACCA	12	6
Work Experience	less than 2 years	55	28
	B/n 2 & 5 years	91	47
	above 5 years	49	25
Business type of the firm	a Partnership	12	21
	A Private Limited Company	46	79
Number of Partnership	2	6	50
	3	4	33
	more than 4	2	17
No employee in the firm	1-10	21	36
	11-20	12	21
	21-30	10	17
	31-40	8	14
	>40	7	12

The initial parts of the paper were dedicated for the analysis of the audit firms' profile, this is important so as one can understand which firms where exposed to which issues and to this line the author prepared a questioner that initially put forward questions to the nature of: the form of ownership of the firm, number of partners if it had one and other questions of the sort that can help the author understand the firms on a deeper level.

An important information with regard to the audit firms under question is their type of ownerships, currently there are 143 audit firms that are in operation in Addis Ababa. This firms range from small private practices to large corporately structured firms and everything in between. Although there are a large number of methods that can be utilized to classify audit firms the most widely utilized are method is to classify them in to privately owned firms or partnerships, in the case of the above-mentioned firms out of sample of 58 audit firms 46 are privately owned which represents around 79% of the total sample which is a majority form of ownership with some stretch the remaining are (i.e., 21% of the sample) are partnerships, an important note here is that the type ownership isn't an indicator of size or ability with some of the largest and most proficient audit firms being privately owned, but in general firms that are partnerships usually have stronger oversight while private practices are exposed to irregular activities.

From the general partnership firms that took part in this paper 3 were owned by 6 partners, 4were owned by 3 partners, 2 were owned by 4 partners. This indicates that small number of partners is the norm with anything above 3 partners being quite rare. This seems to arise because as the number of partners increase the decision-making ability of the partners becomes diluted and in some cases control of the company as even came in to question. So, to avoid this type of conundrum most firms choose to keep the number of partners small and in most cases not have any at all but in some academic circles some people state that the dilution of power is actually a positive thing ensuring that there are enough controlling parties that acting maliciously becomes difficult but even this idea has come under scrutiny in recent years.

Another important factor to consider in audit practice is the number of employees as better practicians tend to have larger number of employees, although this again isn't a definitive indicator of performance as in some cases the most sought out auditors tend to be private

practicians. With regard to the sample population 7 firms had more than 40 employees this firms happen to be those with more than two decade of experience this have been addressed in subsequent pages, firms with employees between 31-40 numbered around 8, firms with employees ranging from 20-30 numbered 10, employees with that ranged in number from 11-20 were employed by 12 firms and lastly firms with employees between 1-10 numbered around 21.

The last set of questions that was put forward by the author is profile part of the questioner was rudimental things as gender and experience. Form this set of questions the author was able to find out that 57% of the sample population where male and the rest 43% were female, although not definitive papers done on the topic of competence in the audit sector indicates that women are less prone to errors and mal intent although to generalize this concept additional inputs might be required. With regard to age workers from between the ages of 20-27 constituted the largest group with 37% followed by 28-35 which represented 30%, this group was again followed by 36-45% which made up 20% of the sample population, the age group 46-60 had a percentile of 10% and lastly the smallest age group above 60 had a mere 2%. With regards to education employees with 1st degree constituted about 54% of the sample population, employees with second degree and above made up around 23% of the sample population and lastly people with less than 1st degree made up only 7% of the sample population. The last question with regard to the profile aspect, people with experience that ranged from 0-2 made up 28% of the population while workers with experiences ranging from 2-5 made up around 47% of the sample population and lastly employees with experience that ranged from 5 years and onward constituted 25% of the sample population.

4.3. Data analysis

The two main questions that this paper was based on the questions of the perception of certain issues and their applicability. Perception in this case is meant to cover let's say familiarity is respondents with laws and regulation while applicability covers as the name indicates how often these rules and regulations are applied. This has given an inside look at the issues plaguing the sector and whether or not these issues are the result of mal intent, gross incompetence or just the lack of knowledge or a combination of all this has provided a deep

insight in to the issues and will help future policy makers to fix issues at hand in the sector and improve the sector.

In line with the above statement applicants were encouraged to fill out the questionnaires with regard to their agreement or disagreement. Two questionnaires were developed for the two types of questions and their scale of agreement was presented as follows.

For the perception questioner:

1) Strongly disagree (SD);
2) Disagree (D);
3) Not sure (NS);
4) Agree (A);
5) Strongly agree (SA).

For the applicability questioner:

1) Unknown (U);
2) Known, but never applied (KNA);
3) Known, but rarely applied (KRA);
4) Known and often applied (KOA);
5) Known and always applied (KAA);

The findings of the questionnaires clearly lay out that some of the issues that have been posed to the respondents are divisive with a lot of questions getting nearly equal responses for two in some cases for three responses and other questions seem to have a different response between knowing the issues, meaning those questions posed by questioner one and implementation of the issue meaning questions that were posed by questioner two. What the difference in response entails has been analyzed in subsequent pages.

- Question one: in the first question posed by the questioner, the author posed the question if the audit compensation fee has no impact on the services that clients got. 70 of 195 respondents representing 36% of the population claimed they disagreed with the statement and an additional 57 respondents 29% of the respondents calming that they strongly disagreed with statement, indicating that fees have an impact on the practice of audit firms in Addis Ababa this is further supported by the response obtained from the second questioner in which 92 respondents 47% of the population claimed that the principle is known but rarely applied this indicates a dangerous president, in which clients that pay more are treated better and those that pay less and this might led to the doing of favors in fear of losing that client and it's because this particular reason that ACCA paper audit and assurance advices firms not to have clients who fees constitutes more than 15% of the audits firms income and also advices firms not to negotiate based on how much tax or any other expense they can reduce.

1. The compensation in the form of audit fee obtained from audit clients for audit services they give has no much impact on the quality of external audit service activities in the private audit firms.

. Table 4.2:frequency distribution for question one first questionary

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	57	26.8	29.2	29.2
	Disagree	70	32.9	35.9	65.1
	Not Sure	36	16.9	18.5	83.6
	Agree	18	8.5	9.2	92.8
	Strongly Agree	14	6.6	7.2	100.0
	Total	195	91.5	100.0	
Missing	System	18	8.5		
Total		213	100.0		

Table 4.2:. frequency distribution for question one second questionary

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	known never applied	65	32.8	33.3	33.3
	known rarely applied	92	46.5	47.2	80.5
	known often applied	30	15.2	15.4	95.9
	known always applied	8	4.0	4.1	100.0
	Total	195	98.5	100.0	
Missing	System	3	1.5		
Total		198	100.0		

- Question two: in these particular question respondents were asked if audit filed work resalts can be summarized and issued without a partner review, this has multiple contributions to the audit practice with it allowing an examination of the results and check if they are to the standards of the firm and to check if there are any malice activities like corruption or neglect. When it came to the practice a majority of the respondents 34% to be exact stated that the practice is known and always applied while 27% stated that they are known and often applied this a good indicator since more than half of the respondents stated that the practice is undertaken in their respective firms and as mentioned above these is an important issue but when it came to the respondents attitude towards the issue most said that they disagreed with the

practice 35% to be exact although this initially might seem worrying that this large number of professionals would disagree with this issue a look at agree and strongly agree who 26% and 9% of respondents agreed to respectively show a more balanced outlook and with the practice rate being this issue might not be a reason for worry, and hence this can be considered as a positive aspect of the practice since partners approval prevents neglect, corruptions and other similar issues.

2. Audit field work results can be summarized and audit report can be issued without an engagement partner review if the audit field work supervisor is senior enough.

Table 4.4:frequency distribution for question two first questionary

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	42	19.7	21.5	21.5
	Disagree	68	31.9	34.9	56.4
	Not Sure	17	8.0	8.7	65.1
	Agree	50	23.5	25.6	90.8
	Strongly Agree	18	8.5	9.2	100.0
	Total	195	91.5	100.0	
Missing	System	18	8.5		
Total		213	100.0		

Table 4.5:frequency distribution for question two second questionary

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Unknown	27	13.6	13.8	13.8
	known never applied	20	10.1	10.3	24.1
	known rarely applied	29	14.6	14.9	39.0
	known often applied	52	26.3	26.7	65.6
	known always applied	67	33.8	34.4	100.0
	Total	195	98.5	100.0	
Missing	System	3	1.5		
Total		198	100.0		

- Question three: this an important question as it asks the respondents whether or not their work is up to the professional code of ethics, 130 respondents 67 % of the

responding population stated that they agree with the notation a further 45 respondents making up 23% of the sample population stated that they strongly agree with the statement while a mere 4% claimed that they disagree with the statement. This is impressive that a large majority of external auditors agree with the fact that professional code of ethics should be kept. When it comes to the actual practice 128 respondents around 66% of the sample population stated that the practice is known and often applied and a further 64 respondents 33% of the sample population claimed that they always apply the code ethics, this is an encouraging out come as ethics in any filed but auditing especially is of paramount importance and especially in Ethiopia in general and in Addis Ababa in particular since there isn't an active third party that overlook the practice the integrity of induvial auditors becomes the largely sole barrier against mal activities.

3. Service of external auditor is warranted by audit committee and satisfies the standards of professional code of ethics and government requirements

Table 4.3: frequency distribution for question three first questionary

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	known rarely applied	3	1.5	1.5	1.5
	known often applied	128	64.6	65.6	67.2
	known always applied	64	32.3	32.8	100.0
	Total	195	98.5	100.0	
Missing	System	3	1.5		
Total		198	100.0		

Table 4.4:frequency distribution for question three second questionary

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	8	3.8	4.1	4.1
	Not Sure	12	5.6	6.2	10.3
	Agree	130	61.0	66.7	76.9
	Strongly Agree	45	21.1	23.1	100.0
	Total	195	91.5	100.0	
Missing	System	18	8.5		
Total		213	100.0		

- Question four: this question posed the idea that an external auditor must attend the annual meeting of the firm they audited, before stating the results it's important to point out that this practice is important meaning that if an auditor is present in an annual meeting the shareholders first know that the auditor is qualified and not an auditor who just does what management tells him/her to do, shareholders can pose questions about the financial health of the company and he/she can honestly answer and give shareholders a true picture of the status of the company if/when management tries to hide it and if the external auditor is present the he/she can clear up issues that might have risen with much more clarity. With this being said 46% of the respondents stated that they agree with the statement and 33% stated that they strongly agree with the idea while this is encouraging that external auditors fill that they should attend this meeting and address the above mentioned issues in reality its rarely practiced with only a mere 7% stating that the issue is known and always practiced while 15% responded that the practice of often practiced with a wiping 32% responding that the practice is never practiced and an additional 24% of respondents stating that they are unaware of this practice, when the above advantages of the attending these meetings is considered its disappointing that only so few attend but the issue remains that the auditors need to be invited in most cases they are not.

4. You as external auditor must attend the Annual General Meeting of Shareholders of your clients to express your opinion as per the guidelines set by ACCA.

Table 4.5: frequency distribution for question four first questionary

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	7	3.3	3.6	3.6
	Disagree	21	9.9	10.8	14.4
	Not Sure	13	6.1	6.7	21.0
	Agree	90	42.3	46.2	67.2
	Strongly Agree	64	30.0	32.8	100.0
	Total	195	91.5	100.0	
Missing	System	18	8.5		
Total		213	100.0		

Table 4.6: frequency distribution for question four second questionary

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Unknown	47	23.7	24.1	24.1
	known never applied	63	31.8	32.3	56.4
	known rarely applied	41	20.7	21.0	77.4
	known often applied	30	15.2	15.4	92.8
	known always applied	14	7.1	7.2	100.0
	Total	195	98.5	100.0	
Missing	System	3	1.5		
Total		198	100.0		

Question five: this question is an important one as it enquires if external auditors always act in the interest of shareholders, which they should. For this question a surprising number of respondents stated that they aren't sure 53 respondents to be exact who represent 27% of the participants, while 36% claimed to disagree and 21% reported to strongly disagree with the notation. When it came to the applicability 36% stated that in their firms this practice is known and often applied with 11% claiming that its known and always applied. These is a positive sign since the interest of the shareholder should always come first in these circumstances, since external auditors

are contracted by management instead of the shareholders the auditors mustn't capitulate to the demands and pressures from management.

5. External auditor must act in the interest of shareholders and the government policy.

Table 4.7: frequency distribution for question thirteen five questionary

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Agree	50	23.5	25.6	25.6
	Strongly Agree	145	68.1	74.4	100.0
	Total	195	91.5	100.0	
Missing	System	18	8.5		
Total		213	100.0		

Table 4.8:frequency distribution for question five second questionary

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Unknown	19	9.6	9.7	9.7
	known never applied	30	15.2	15.4	25.1
	known rarely applied	55	27.8	28.2	53.3
	known often applied	70	35.4	35.9	89.2
	known always applied	21	10.6	10.8	100.0
	Total	195	98.5	100.0	
Missing	System	3	1.5		
Total		198	100.0		

- Question six: the second question of the questionary asks the respondents if AABE provides amble oversight in the sector to which 37% of the respondents claimed that they aren't sure this particular response says much about the activeness of the organization as many of the workers in the filed it supposed to oversee don't know if it's providing enough oversight this indicates that the organization is lacking in enforcement department and these raises the issue of oversight and regulation is the

sector which is currently largely absent from the sector. Given these 77 respondents representing 39% of the respondents knew about AABE but stated that its regulation and rules are rarely applied and 38% of the respondents claimed that its often applied.

6. There is proper oversight and regulation of external audit activities by the regulatory body AABE.

Table 4.9: frequency distribution for question six first questionary

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	unknown	6	3.0	3.1	3.1
	known never applied	8	4.0	4.1	7.2
	known rarely applied	77	38.9	39.5	46.7
	known often applied	74	37.4	37.9	84.6
	known always applied	30	15.2	15.4	100.0
	Total	195	98.5	100.0	
Missing	System	3	1.5		
Total		198	100.0		

Table 4.10:frequency distribution for question six second questionary

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	34	16.0	17.4	17.4
	Disagree	48	22.5	24.6	42.1
	Not Sure	72	33.8	36.9	79.0
	Agree	23	10.8	11.8	90.8
	Strongly Agree	18	8.5	9.2	100.0
	Total	195	91.5	100.0	
Missing	System	18	8.5		
Total		213	100.0		

Question seven: the last question in which there seems to be a general agreement between the two questionaries that were distributed, the statement poses an important question of whether or not if the respondents taught that external audit practice improved tax collected by the government agency responsible for the issue. This is an important topic as tax is the most important source of government revenue and Addis Ababa as the commercial center of

Ethiopia is where a significant amount of tax is collected and some companies and individuals try to coheres external auditors through money and other things to make sure that they under report their income so that they could pay below what they really should. It's for this reason that a good audit practice is important for the government, but currently there is no government agency that rigorously checks and enforces the law on audit firms so once again the moral stature of the individual auditor and the audit firms in general becomes important. To this end 145 respondents making up 74% of the sample population stated that they strongly agree with the notation, while an additional 50 respondents 26% of the sample agreed with the statement, this obviously is a positive since as explained the issue at hand is of major significance, with regard to applicability 78 respondents 40% of the sample population claimed that the practice is often applied in their experience while an additional 61 respondents stated that they always apply the practice, although not as high as the attitude the applicability is still at an acceptable rate.

7. External audit practice in Ethiopia can enhance tax collection by the Ministry of Revenue

Table 4.15. frequency distribution for question seven first questionary

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	40	18.8	20.5	20.5
	Disagree	70	32.9	35.9	56.4
	Not Sure	53	24.9	27.2	83.6
	Agree	20	9.4	10.3	93.8
	Strongly Agree	12	5.6	6.2	100.0
	Total	195	91.5	100.0	
Missing	System	18	8.5		
Total		213	100.0		

Table 4.11: frequency distribution for question seven second questionary

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	known rarely applied	56	28.3	28.7	28.7
	known often applied	78	39.4	40.0	68.7
	known always applied	61	30.8	31.3	100.0
	Total	195	98.5	100.0	
Missing	System	3	1.5		
Total		198	100.0		

Question eight: the fact that an overwhelming number respondents strongly agreed to this question 112 to be exact representing 57% of the population isn't that surprising when we consider the idea that the question posed stated that internal and external auditors should work cooperatively. Although the positive attitude of the external auditors is apricated when it is taken in to consideration that this cooperation can lead and will lead to high quality body of work the positive aspect is upstaged when 41% of the respondents stated that although known the practice is rarely applied and an additional 32% stated that the practice is never applied but what is surprising from the responses is the fact that 15% said that this practice is totally unknown in their work life. Indicating that in reality this important cooperation is basically nonexistent and this has and is leading to low performance when it comes to the external audit services and in some instances the author discovered that there is animosity between internal and external auditors as both side attempt to hide mistakes or discrepancies.

8. Governmental oversight agency and external auditors should work cooperatively for a quality audit service and to improve governmental income.

Table 4.17: frequency distribution for question eight first questionary

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Not Sure	23	10.8	11.8	11.8
	Agree	60	28.2	30.8	42.6
	Strongly Agree	112	52.6	57.4	100.0
	Total	195	91.5	100.0	
Missing	System	18	8.5		
Total		213	100.0		

Table 4.18:frequency distribution for question eight second questionary

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	unknown	30	15.2	15.4	15.4
	known never applied	63	31.8	32.3	47.7
	known rarely applied	79	39.9	40.5	88.2
	known often applied	16	8.1	8.2	96.4
	known always applied	7	3.5	3.6	100.0
	Total	195	98.5	100.0	
Missing	System	3	1.5		
Total		198	100.0		

Question nine: the question deals with the issue of discussing, analyzing and justifying the results and arguments that were put forward by the external auditor by the audit committee and management of the company that is being audited. This helps the audit results to be of high quality and with little errors as the audit committee and management can notice errors that the auditor may not have noticed and bring fresh perspectives to the issues that the auditor may have faced. Out of the 195 respondents 90 said that they agree with question which represent 46% of the respondents and an additional 84 respondents who represent 43% of the respondents stated that they strongly agree with the statement, with small numbers of respondents stating that they aren't sure although the sentiment shows a positive outlook the disbarring results can be seen from the other questionary where by 125 respondents who represent 64% of the respondents stated that this practice although known is only rarely applied showing that issues that might rise out of lack of cross checking are arising as a result of negligence although 32% of the respondents stated that the practice is often applied the difference between the two indicates that there is a negative impact that is a result of incomitance. A tabular representation is presented as follows

9. External audit service providers should discuss the results of their activities with audit committee and management, presenting also the arguments that justify the audit opinion with respect to the reliability and true and fair view of the audited financial statements. Terms of protecting the interests of owners.

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Table 4.19:frequency distribution for question nine first questionary

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	8	3.8	4.1	4.1
	Not Sure	13	6.1	6.7	10.8
	Agree	90	42.3	46.2	56.9
	Strongly Agree	84	39.4	43.1	100.0
	Total	195	91.5	100.0	
Missing	System	18	8.5		
Total		213	100.0		

Table 4.20.frequency distribution for question nine second questionary

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	known rarely applied	125	63.1	64.1	64.1
	known often applied	63	31.8	32.3	96.4
	known always applied	7	3.5	3.6	100.0
	Total	195	98.5	100.0	
Missing	System	3	1.5		
Total		198	100.0		

Question ten: in this question it was enquired if external auditors took in to account the input of internal auditors for firms that had one. 98 respondents representing 50% of the population said that they strongly agree that external auditors should take in to account the input of internal auditors if the company has one and 76 respondents 39% of the sample stated that they agree with the idea and in line with this point 75 respondents claimed to have known about the practice and often applied it and an additional 60 respondents stated

that they always applied it. This is quite a good indicator as the input from internal auditors can help external auditors have a good picture of the ins and outs of the firm they are auditing and these helps them to produce a better quality of work.

10. Do you agree that external auditors should take the internal audit reports and use it as an input for their work?

Table 4.12: frequency distribution for question ten first questionary

		Frequency	Percent	Valid Percent	Cumulative Percent
11. Valid	Not Sure	23	10.8	11.8	11.8
	Agree	62	29.1	31.8	43.6
	Strongly Agree	110	51.6	56.4	100.0
	Total	195	91.5	100.0	
Missing	System	18	8.5		
Total		213	100.0		

Table 4.13: frequency distribution for question ten second questionary

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	known never applied	12	6.1	6.2	6.2
	known rarely applied	48	24.2	24.6	30.8
	known often applied	75	37.9	38.5	69.2
	known always applied	60	30.3	30.8	100.0
	Total	195	98.5	100.0	
Missing	System	3	1.5		
Total		198	100.0		

the author in this particular question enquired whether or not external auditors give suggestions to audit committees and management to improve the quality of internal audit. The question is important since audit committees are independent and are non-

executive directors, they hold large sway on how audit is conducted internally. These means that they are the primary tools in which audit internally can be improved and as mentioned in other questions internal auditors might conspire with management or just have mal intent and since most of management and shareholders might not have the advanced auditing knowledge to identify the earnest errors or the mal intended ones,

so the opinions of external auditors is of paramount importance and to this effect 98 of the respondents constituting 50% of the respondents stated that they strongly agree with the statement and a further 76 respondents making up 39% of the respondents claimed that they agree with the statement, considering the importance of the issue at hand the high agreement is a positive indicator that with at least, with regard to attitude there are no issues but when it comes to applicability although 55 respondents making up 28% of the respondents claimed that the practice is often applied and a further 53 respondents 27% of the respondents stated that the practice is rarely applied, the applicability is still below 60% indicating that there is a short coming when it comes to applicability which again like most issue that face the practice here again the diffrence between application and perception.

11. For increasing the effectiveness of internal control system external auditors can give suggestions to the audit committee and those who are in charge of the company.

Table 4.14: frequency distribution for question eleven first questionary

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	6	2.8	3.1	3.1
	Not Sure	15	7.0	7.7	10.8
	Agree	76	35.7	39.0	49.7
	Strongly Agree	98	46.0	50.3	100.0
	Total	195	91.5	100.0	
Missing	System	18	8.5		
Total		213	100.0		

Table 4.15:frequency distribution for question eleven second questionary

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	unknown	36	18.2	18.5	18.5
	known never applied	44	22.2	22.6	41.0
	known rarely applied	53	26.8	27.2	68.2
	known often applied	55	27.8	28.2	96.4
	known always applied	7	3.5	3.6	100.0
	Total	195	98.5	100.0	
Missing	System	3	1.5		
Total		198	100.0		

Question twelve: this question largely deals with the relation between audit firms and the firms that are being audited as it asks whether or not external auditors advise the audit committee and the management on the accounting practices of the company and on accounting estimates. Around 115 respondents 59% of the respondent's population claimed that they agree with the statement and an additional 52 respondents 27% of the population stated that they agree with the statement while, only 14% responded with a disagreement. As it can be seen most respondents gave a positive response indicating that they support the idea that external auditors should double down as a sort of advisors as well, when it came to the applicability of the issue 72 respondents constituting 37% of the responding population stated that although known the practice is rarely applied and 43 respondents 22% of the population stated that the policy is often applied. This difference arose from the likely fact that although auditor's advice on accounting practices most accounting estimates is made by management.

12. Do you agree that external auditors advise audit committee and management regarding the accounting policies adopted by the company, judgments and accounting estimates that are made?

Table 4.16: frequency distribution for question twelve first questionary

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	28	13.1	14.4	14.4
	Agree	115	54.0	59.0	73.3
	Strongly Agree	52	24.4	26.7	100.0
	Total	195	91.5	100.0	
Missing	System	18	8.5		
Total		213	100.0		

Table 4.17:frequency distribution for question twelve second questionary

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	unknown	27	13.6	13.8	13.8
	known never applied	38	19.2	19.5	33.3
	known rarely applied	72	36.4	36.9	70.3
	known often applied	43	21.7	22.1	92.3
	known always applied	15	7.6	7.7	100.0
	Total	195	98.5	100.0	
Missing	System	3	1.5		
Total		198	100.0		

Question thirteen: for this particular question respondents were asked if management and audit committees of firm are higher external auditors to check whether or not their internal auditors are functioning properly and effectively. While 102 respondents 52% of the respondents responded by stating that they strongly agree with the notation and 85 respondents presenting 44% of the population claimed that they agree with notation when it comes to application once again there is a difference of response where by 61 respondents 31% of the respondents stated that the practice is rarely applied while 27% stated that although known it's never applied while 30% claimed that the practice isn't known to them, this again a discouraging response as shows that in most cases firms only relay on internal auditors which might led issues unless there is a good and regress check and control system with in the firm its self which in most cases is

unlikely this could have been mediated with the stated question but unfortunately that isnt the case.

13. Management and audit committee can seek out external audit service about the effectiveness of the entity's internal audit function.

Table 4.27:frequency distribution for question thirteen first questionary

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Not Sure	8	3.8	4.1	4.1
	Agree	85	39.9	43.6	47.7
	Strongly Agree	102	47.9	52.3	100.0
	Total	195	91.5	100.0	
Missing	System	18	8.5		
Total		213	100.0		

Table 4.28: frequency distribution for question thirteen second questionary

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Unknown	58	29.3	29.7	29.7
	known never applied	52	26.3	26.7	56.4
	known rarely applied	61	30.8	31.3	87.7
	known often applied	20	10.1	10.3	97.9
	known always applied	4	2.0	2.1	100.0
	Total	195	98.5	100.0	
Missing	System	3	1.5		
Total		198	100.0		

Table 4.29: Statistical parameters for proposals of external audit practices

No	Proposals of external audit good practices	N	Min.	Max.	Mean	Std. Deviation	Statement
	The compensation in the form of audit fee obtained from audit clients for audit services they give has no much impact on the quality of external audit service activities in the private audit firms.	195	1	5	2.297436	1.189	Disagree
2	Audit field work resalts can be summarized and audit report can be issued without an engagement partner review if the audit field work supervisor is senior enough.	195	1	5	2.661538	1.315	Disagree
3	Service of external auditor is warranted by audit committee and satisfies the standards of professional code of ethics and government requirements	195	2	5	4.087179	0.672	Agree
4	You as external auditor must attend the Annual General Meeting of Shareholders of your clients to express your opinion as per the guidelines set by ACCA.	195	1	5	3.938462	1.073	Agree
5	External auditor must act in the interest of shareholders and the government policy	195	4	5	2.45641	1.113	Disagree
6	There is proper oversight and regulation of external audit activities by the regulatory body AABE.	195	1	5	2,707692	1.163	Not sure
7	External audit practice in Ethiopia can enhance tax collection by the Ministry of Revenue	195	1	5	4.74359	0.438	Strongly agree
8	Governmental oversight agency and external auditors should work cooperatively for a quality audit service and to improve	195	3	5			

	governmental income.				4.45641	0.697	Strongly agree
9	External audit service providers should discuss the results of their activities with audit committee and management, presenting also the arguments that justify the audit opinion with respect to the reliability and true and fair view of the audited financial statements. Terms of protecting the interests of owners.	195	2	5	4.276923	0.765	Agree
10	Do you agree that external auditors should take the internal audit reports and use it as an input for their work?	195	3	5	4.446154	0.697	Strongly agree
11	For increasing the effectiveness of internal control system external auditors can give suggestions to the audit committee and those who are in charge of the company.	195	2	5	4.364103	0.757	Strongly agree
12	Do you agree that external auditors advise audit committee and management regarding the accounting policies adopted by the company, judgments and accounting estimates that are made?	195	2	5	3.979487	0.919	Agree
13	Management and audit committee can seek out external audit service about the effectiveness of the entity's internal audit function.	195	3	5	4.482051	0.577	Strongly agree

Source: *author's projection by using SPSS 16*

Table 4.18:Statistical parameters for current applicability of external audit practices

NO	**Current application of external audit practices**	N	Min.	Max.	Mean	Std. Deviation	Variance
1	The compensation in the form of audit fee obtained from audit clients for audit services they give has no much impact on the quality of external audit service activities in the private audit firms.	195	2	5	2.902564	0.803	Known but rarely applied
2	Audit field work resalts can be summarized and audit report can be issued without an engagement partner review if the audit field work supervisor is senior enough.	195	1	5	3.435897	1.406	Knownand always applied
3	Service of external auditor is warranted by audit committee and satisfies the standards of professional code of ethics and government requirements	195	3	5	4.312821	0.497	Known and often applied
4	You as external auditor must attend the Annual General Meeting of Shareholders of your clients to express your opinion as per the guidelines set by ACCA.	195	1	5	5 2.251282	1.216	Known never applied
5	External auditor must act in the interest of shareholders and the government policy	195	1	5	3.23	1.135	Known But rarely applied
6	There is proper oversight and regulation of external audit activities by the regulatory body AABE.	195	1	5	3.553846	0.906	Known but rarely applied
7	External audit practice in Ethiopia can enhance tax collection by the Ministry of Revenue	195	1	5	4.03	0.776	Known and often applied

8	Governmental oversight agency and external auditors should work cooperatively for a quality audit service and to improve governmental income.	195	1	5	2.369231	0.970	Known but never applied
9	External audit service providers should discuss the results of their activities with audit committee and management, presenting also the arguments that justify the audit opinion with respect to the reliability and true and fair view of the audited financial statements. Terms of protecting the interests of owners.	195	3	5	2.841026	0.559	Known but rarely applied
10	Do you agree that external auditors should take the internal audit reports and use it as an input for their work?	195	1	5	2.753846	1.129	Known but rarely applied
11	For increasing the effectiveness of internal control system external auditors can give suggestions to the audit committee and those who are in charge of the company.	195	1	5	2.574359	1.157	Known but rarely applied
12	Do you agree that external auditors advise audit committee and management regarding the accounting policies adopted by the company, judgments and accounting estimates that are made?	195	1	5	2.753846	1.129	Known but rarely applied
13	Management and audit committee can seek out external audit service about the effectiveness of the entity's internal audit function	195	3	5	1.984615	1.064	Known but rarely applied

Source: *author's projection by using SPSS 16*

From the statistical analysis that was presented above the author selected a cut of point of 3.5 and above of the mean to determine if the response that obtained on the first questionary was a positive one and consequently represents a positive trend and the questions that represent this trend are:

- External audit service providers should discuss the results of their activities with audit committee and management, presenting also the arguments that justify the audit opinion with respect to the reliability and true and fair view of the audited financial statements, (Question nine).
- Do you agree that external auditors should take the internal audit reports and use it as an input for their work? (Question ten).
- For increasing the effectiveness of internal control system external auditors can give suggestions to the audit committee and those who are in charge of the company, (Question eleven).
- Internal audit department and external auditors should work cooperatively for a quality audit service, (Question eight).
- Service of external auditor is warranted by audit committee and satisfies the standards of professional code of ethics, (Question three).
- Do you agree that external auditors advise audit committee and management regarding the accounting policies adopted by the company, judgments and accounting estimates that are made? (Question twelve).
- You as external auditor attend the Annual General Meeting of Shareholders of your clients to express your opinion, (Question four).
- Management and audit committee can seek out external audit service about the effectiveness of the entity's internal audit function, (Question thirteen).
- External audit practice in Ethiopia can enhance tax collection by the Ministry of Revenue, (Question seven).

As it can be seen from the above statements it can be seen that out of 13 questions 9 had a mean above 3.5, this indicates on the proposal of the issues most of the respondents had responded that they either agree or strongly agree. As most of these statements as have

positive connotations, this is a positive at least with regard to the attitudes of the induvial auditor. But the story is different once again when it comes to applicability.

For the second questioner the author decided that a cut of point of 2.5 and above would render a better utility, this is because most of the issues aren't applied and the author decided that it was necessary to lower the bar and the responses that meet this requirement are presented below:

- The compensation in the form of audit fee obtained from audit clints for audit services they give has no much impact on the quality of external audit service activities in the private audit firms, (Question one).
- There is proper oversight and regulation of external audit activities by the regulatory body AABE, (Question six).
- External audit service providers should discuss the results of their activities with audit committee and management, presenting also the arguments that justify the audit opinion with respect to the reliability and true and fair view of the audited financial statements, (Question nine).
- Do you agree that external auditors should take the internal audit reports and use it as an input for their work? (Question ten).
- For increasing the effectiveness of internal control system external auditors can give suggestions to the audit committee and those who are in charge of the company, (Question eleven).
- Audit field work resalts can be summarized and audit report can be issued without an engagement partner review if the audit field work supervisor is senior enough, (Question two)
- Service of external auditor is warranted by audit committee and satisfies the standards of professional code of ethics, (Question three).
- Do you agree that external auditors advise audit committee and management regarding the accounting policies adopted by the company, judgments and accounting estimates that are made? (Question twelve).
- External audit practice in Ethiopia can enhance tax collection by the Ministry of Revenue (Question seven).

Although 9 of the 13 questions have meet the requirement put forward by the author, the results can't be seen as a positive like that of the response from the first questionary because of the lowered standards and the lowered standards also include known but rarely applied to which 6 of the 9 are categorized in to and this isn't by any stretch of the imagination a positive aspect of the practice, so the mean indicates that although when it comes to attitude the trends in the sector are positive when it comes to practice its quiet damp.

4.5. Interview

After distributing the questionaries to the selected sample population and receiving their responses the author prepared interviews to be distributed to clients and external auditors so that the most important issues on the practice of audit firms in Addis Ababa can be viewed from the point of the view of the actual participants.

The author utilized convenience sampling and interviewed 13 clients that represented business across the spectrum. Some of these business where PLC, 8 to be exact while the rest where share companies. Out of the 13 interviewees 3 where owners while 10 where mangers on different levels.When it comes to auditors 20 were interviewed 14 had BA degrees while the rest had masters, 5 had ACCA qualification while 11 where currently undergoing tests to get their qualifications. The clients were asked 9 questions while the auditors were posed 10 questions, the questions along with the questionaries are presented in the annex part of the paper. With the general information about the questions provided let's look at the responses from the interview and analyze what they could tell us about the audit practice in Addis Ababa:

- The first question that was posed to the clients was whether or not they were happy with the audit service they were currently getting, 9 of the interviewees stated that they were generally happy with the service they were obtaining, when the author enquired why they felt happy with the service the respondents stated that the quality of work and the time management of the auditors where up to their standards. The author further enquired whether the auditors have ever over ridden a request made by the clients, some of the clients hesitated to answer this question after the author pleaded with them only 2 said that auditors have actually refused a request made by them this

is to the contrary of the questionary where auditors claimed that they followed strict moral codes, the fact that most auditors don't reject requests by the clients is worrying, as explained in above pages some clients request some illegal things, so this reflects poorly on the sector. Out of the 13 respondents 4 said that they weren't happy with the service they currently were getting or had gotten in the past when the author enquired why the respondents claimed that the reasons where that some auditors didn't manage their time properly and this affected the day to day operations of their activities, another reason included the quality of work but on a more interesting point 2 respondents both mangers claimed that there were disagreements on accounting ratios and these created tensions between management and auditors.

- After the interviewees responded to the first question the author proceeded to ask the second question which probed weather or not the clients responding to the questions were familiar to audit practices, out of the 13 respondents 11 informed the author that they were in fact familiar with at least with the most important aspect of audit while the remaining 2 stated that they weren't familiar with the issue. When the author pressed on and asked the respondents on how much they were familiar they were with auditing 8 said that they had educational experience and could understand the results and some of the more advanced aspects of the audit report while the remaining informed the author that they had gotten their familiarity from work experience and also could at least understand the most basic aspects of the audit report.
- The third question that was posed to the respondents asked weather or they thought external audit was efficient, 9 out of 13 respondents claimed that although there was resource wastage like employees not coming in time and not delivering the reports on time the process was largely efficient. One important thing to note here is that interviewees from larger firms reported that they thought the process was efficient while interviewees from smaller firms were a little hesitant to call the process efficient while some other 4 to be exact out right called the process inefficient these indicates that external audit firms show preferential treatment to their larger clients. These confirms the response from the first question from the first questionary which stated that audit fee didn't impact the practice in which 36% and 29% of the respondents strongly disagreed and disagreed respectively. These again isnt a positive look on the

practice since all clients should be treated the same,but this is actually one of the most complained issue when it comes to the practice.

- The interviewer proceeded to ask both respondents who thought auditing was efficient and those who didn't on how the practice could be improved, although all gave different answers the answers usually followed along the lines of if time efficiencycould be improved, to assign cable auditors some claimed that they got in to legal trouble because of auditor's errors and if auditors could provide suggestions on how accounting practices in the company being audited could be improved.
- The next question enquired whether or not if the clients utilized the same external audit firm for an extended periods of time, to which 6 said that they did and asked why they said they had a positive relationship with the audit firm and that they thought that an audit firm that is acquainted with their company is likely to make less mistakes than a new might, while the rest of the interviewees claimed that they preferred to change their audit clients in a couple of years because familiarity bias. These a positive aspect of the practice since as an audit firm and a client get comfortable with each other the likeliness of under the table deals also increase and hence necessitates the changing of the firm in a rotational manner.

- In the subsequent question the interviewer probed weather or not the firms had internal auditors and audit committees, to which 8 of the respondents stated that they had while the rest didn't have these functions, the main reason as to why they don't have these functions/department nearly all stated that it's because they of they couldn't afford and some claimed that they didn't need it because of the size of their operations. As to when the author enquired why firms had internal auditors most of the responses where about asset protection and internal control. The fact that the number of firms that had internal auditors is this high is a good sign as internal auditors will make external auditors' work quality high.

- An important point that was enquired by the author is whether or not the clients applied what was recommended by the external auditor, to which nearly all the respondents unanimous stated that they do. But when the author pushed on further about half claimed that some of the recommendations couldn't be applied because of

the ability to do so wasn't there or simply they "forgot" do so. Although as explained about half admitted that they didn't fully implement the recommendations the fact that about half fully applied the recommendations and the other half in some form or another applied it as well is a positive on the side of the clients and the auditors, these is because it indicates that the latter gives good recommendations that the former feels comfortable enough to apply or attempt to apply them.

- The last interview question that was posed to the clients was, if from thereexperience external audit improved the quality of internal audit, to these nearly all responded positively and most related their answer for this question with their response for question eight by stating that most of the improvements that were recommended to them related to internal audit, things like how to maintain and update certain accounting variables and how to streamline certain activities and most expressed satisfaction with the results. These is an important feat since as explained above the fresh point of view of an external auditor can help a company identify its short comings and help to improve them.

From the first part of the interview, it can be seen that although falling short in certain aspects the practice with regard to client relationship is positive as most of answer were is some form or another is praise full of external auditors. The next part of the interview deals with the auditors themselves and reflects their view on certain important things and is presented as follows:

- The first question that was posed to the auditors was if they were satisfied with audit practice, out of the 20 interviewees 16 said that although there are issues with regard to with training to help them update themselves to the current standard the sector can largely be said to be growing and to have a positive impact on the economy, while the remaining 4 stated that the lack of a governing body and clear principles had let the practice go a stary. From the response we can see that most of the answers are positive and this indicates that at least from the point of view of the auditors the sector is on the right track.
- The next enquiry that was put forward to the auditors has to deal with firms' familiarity with external audit practice, here firms are to mean the companies that are

being audited. 17 auditors claimed that firms were familiar with external audit practices and provided all the necessary information and data to the external auditors so that they could efficiently do their task. While the remaining 3 stated that a lot of firms didn't keep detailed data and this affected their work. When the author asked what type of firms keep the most detail nearly all the respondents claimed that share companies were better with some distance, this can be expected as large corporations usually have entire departments to keep and analyze accounting information.

- The third question on the list was enquiring on what were some of the factors that affect external audit independence, this is an important as issue since the fact that auditor's independence is of paramount importance since no work can be considered valid if the independence either of the auditor or firm comes in to question. With these being said although the auditors explained their personal experiences most can be summarized under the following three umbrellas:
    - Familiarity: these occurs when auditors become too familiar with the clients they are supposed to audit and leads them to make biased decisions that could influence the outcome of the audit.
    - Corruption: as the name indicates this is exchanging particular changes to the audit report to benefit the client that's offering the bribe, this is one of the most common factors that affect audit independence.
    - Favors/gifts: although somewhat similar to corruption these exchange usually happen through exchanging favors between the client and the auditor and sometimes these exchanges take the form of gifts.
- The next question that was posed to the interviewees was if the companies that are/were being audited disclosed all the necessary information to the auditors, the response was a mixture while 11 said that from there experience most companies did disclose all the necessary information that was required while the remaining 9 commented that a lot of firms try hide some figures especially if it involves illegal transactions or in an attempt to reduce their tax payment. From the response we can see that nearly half of auditors think that firms hide data so vigilance from the auditor is required to make sure that the audit report represent actual and all transactions and

most auditors also stated that this fact puts a lot of stress on their work affecting their accuracy.

- Question five asked interviewees if from their experience the relation between management of the firms being audited and auditors is good, 16 stated that in fact that was their experience calming that there is no reason for conflict between the two parties they further elaborated that the only relation that they have with management was when they required data and which management usually provided without any issues, but the remaining 4 stated that some managers weren't open to disclose data's and sometimes outright requested them to manipulate the outcomes which strained their relationship with management. From the responses we can see that a large number of auditors have a good relationship with the management of firms being audited which is a positive.
- The following question put forward and enquired on if firms under audit asked auditors to do inappropriate/illegal things, 15 of the respondents claimed that with an exception of a request to "cook the books" here and there no firm till this day has propositioned they do something an illegal activity while 5 remaining stated that they were requested to do things of that nature but rejected the advances, although on surface this might seem a huge point for the auditing practice since the question involved the conducting of illegal activities it's possible that not all auditors responded in earnest, this can be further supported when we look at the practice and find out that there are many complins of the nature with regard to the sector.
- The seventh question asks an important question, weather the relationship between internal auditors and external auditors is good. An impressive 18 respondents explained that the relationship is good calming that in most cases there is a sense of comradery with internal auditors usually extending a helping hand to their external counterparts. The 2 respondents that claimed that they had experienced a negative relationship a couple of time during their time in the practice, but when they elaborated further in most cases the issues usually arise from management and not the internal auditors themselves. This is a good thing since a cooperation between the two can dramatically increase the quality of work being put out by external auditors.

- Respondents for this question unanimously stated that this practice is practiced, the practice in question is the proper evaluation of external audit reports by the audit firm its self. All 20 respondents claimed that their work gets proper review by seniors in the firm and all stated that the reports need to be approved by partners for it be published, but at the same time nearly all stated that the review isn't always top notch and can differ based on time availability, client and the seniority of the of the auditor that did the auditing. The response for this question in encouraging since a review even a mild one might go a long way in discouraging mal practice and errors and helps to keep the level of external audit practice high in the city.
- One of the last questions enquired about the effect of the regularity body AABE on the practice of external audit, once again all the interviewees stated that the laws and regulations that are put forward by the regularity body affect the practice in a major way since that is the general guideline that is utilized to audit firms but the respondents also elaborated that the regulations that are put forward by the AABE aren't always constructive with some complicating unnecessarily the audit process and putting stress on the auditors to complete the work on time and with the new regulations kept in mind.
- The last question that was posed to the auditors was connected to question nine and requested to know whether or not AABE provided proper training to help auditors cope with changes in the practice, to which all responded no and this indicates a major issue that a regularity body doesn't provide training to help auditors be updated this has created some tension with regard to the audit service with difference between academics and application and this particular is dragging the practice.

5. CHAPTER 5: CONCLUSION AND RECOMMENDATION

The first part of this chapter presents the conclusions of the paper and the second part deals with recommendations.

5.1. Conclusion

When the author first set out to conduct the paper at hand, he had identified four specific objectives that he was going to address and the author addressed them through a combination of Statistical and descriptive methods and the conclusion he reached at are presented in the following pages.

With regard to the first question, results from the questionary and interview indicate that there is a vacuum of oversight in the sector with ABBE being largely absent from the sector. But this doesn't mean that the sector has become lawless a combination of laws, practices and educational studies have paved out a certain tarin that most audit firms in the city tend to take and hence it can be concluded that although the regulations largely remain unenforced most firms tend to at least follow certain laws as guidelines, which can be seen with a positive outlook but there is a necessity for an organized well-endowed governmental or non-governmental body that overlooks the sector and sets guidelines and regulations, this is supported by KassahunGilo (2010) who stated that although there is an absence of regulation firms usually tend to follow common guideline while conducting the practice.

When it comes to the second question that was enquired by the paper it was discovered as can be expected that good audit practice has a positive impact on governmental revenue collection, since auditors usually tend be the first line of defense against tax fraud their ability to impact government income is high and it is here their moral compass need to come it to play with oversight highly lacking auditors may collaborate with clients to underreport income and underpay tax. Although all the respondents of this paper said that they didn't participate in such things there is a strong evidence that indicate that such practices do take place this concept is supported by DessalegnGetie (2009) shows that auditors have a large

impact on government revenue by indicating the link between good audit practice and revenue increases by the government.

When it comes to the third objective an overwhelming positive response from the questionary indicate that there is a positive relation between external audit practice and government revenue, with external auditors usually being the first line of defense with regard to tax fraud. Once again when it comes to oversight, its lacking but in relation to government revenue since there are additional agencies that participate oversight tend to be stronger but still the absence of an executive body that overlooks the practice has led to a lack laster practice in external auditing.

As it can be seen from the tables that represent the statistical findings of the paper, there is a significant difference between the response that was obtained from questions that enquired mostly about attitudes of the auditors which indicated largely positive trend and those that enquired about application which indicated a damp result.So, it can be seen that the difference between these two out comes is the main reason for the issues the external audit practice face. This indicates that there is a need for a proper frame work that could properly pin point the needs of a good audit practice.

The fact a majority of the respondents indicated a positive out look to good audit practices, indicates that the average auditor is willing to practice in a positive manner in the practice but due several factors isn't currently doing so as shown by the responses to the second questionary, which indicate this short coming seem to be the most ever-present issue that plague the practice.In addition, the responses to the interview also indicate similar results to that of the questionaries with most of the interviewees responding in a positive manner and calming that they positively conduct their practice.

Most in the questionaries and in the interview as well seem to have a consensus on the issue of oversight and assistance, in the fact that it's basically absent from the sector making difficult to peruse the practice in a positive manner, this ties in with the fact for the need for a frame work. It can be concluded that although the individual auditor seems to be willing to practice in a positive manner in auditing the absence of support and a frame work in which

good auditing practice is clearly defined has made the applicability of good audit practice very difficult.

Lastly the last objective that was tackled was the relationship between internal, external auditors and audit committee, here it can be concluded that when the relationship among the three goes well audit usually tend to go without flaw while difference among the three tend to harshen the audit and even might led to wrong audit reports deliberately or accidentally.

5.2. Recommendation

Now that the issues have been specified the next important point is to put forward recommendations that the paper hopes will alleviates some the issues that have been pointed out in the above pages:

The fist recommendation the author recommends to improve the current form of the practice is the empowerment of AABE, this would have multiple impacts on the sector some of which are: there would be a body that would over look update and regulations and improve them so that they would be up to date, the frame work that was talked about earlier can be established through this organization, as it lays rules and regulations those could serve as a standing ground for the frame work and the fear of this organization might deter mal intended auditors.

Provide assistance to auditors, the assist might take different forms like financial assistance for auditors that are undertaking ACCAtests since the program is expensive or providing facilities in which auditors undertaking the mentioned test could easily access books and other materials so that they could more efficiently undertake the tests this is bound to increase the quality the sector or provide short or long course and update the knowledge of auditors so that they will be informed to current practices throughout the world.

Streamline the relationship between internal, external auditors and audit committees. This will make the auditing practice efficient and accurate with all the parties doing their best to improve the standing of the report rather than all hoping to benefit their own sides. To do this a principle must be set out which outlines the relationship between the aforementioned bodies, this must be coupled with improved governmental oversight which facilitates the relationship.

Lastly auditors and audit firms should maintain their integrity and try to improve their skills and knowledge as ultimately, it's their efforts that will either elevate the sector or doom it. Auditors should closely and honestly work with audit committees and the firms should have a strong oversight over their employees and abide by the law.

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Annex

Annex 1: questionaries'

THE PROJECT IS ENTITLED"ASSESSMENT OF EXTERNAL AUDIT PRACTICES IN ETHIOPIA: THE CASE OF ADDIS ABABA SELECTED PRIVATE AUDIT FIRMS

ENGAGED IN ETHIOPIA." as a partial fulfilment of the requirements for the Masters of Business Administration.

The major objective of the study is to assess audit practices in private audit firms of Ethiopia. This is through exploring external auditor's perception and assessing the real applicability of the practices on the current audit environment of the country. Accordingly, this questionnaire is designed to collect information related with this.

As audit practitioners, I hope you will have a good understanding on the current audit environment of the country. Therefore, your cooperation in filling out the questionnaire carefully and genuinely, apart from contributing towards the successful completion of the study is essential input towards the creation of a level headed knowledge regarding the above-mentioned issue.

Finally, I want to kindly assure you that the items included in this questionnaire are not designed to test your ability and that all the information you provide will be confidential & will exclusively be used for research purpose.

For further information please contact "**Nathan Asfa"** by the following address.

Tel: - 091-228-54-87
Email: Nathan.asfa@aau.edu.et

Thank you for your kind cooperation in advance!

Nathan Asfa

MBA (Masters of Business Administration) student at Addis Ababa University

PART ONE: GENERAL INFORMATION

I. About the Firm

1. Business type of the firm ( ) a Partnership ( ) a Private Limited Company

2. If your answer to question number "1" is a "partnership" pleas indicate the number of partners of the Firm ( ) 2 ( ) 3 ( ) 4 ( ) 5 ( ) more than 5

3. How many years have you been in the audit service

( ) 1-5 years ( ) 6-10 years ( ) 11-15 years ( ) 16-20 years >20 years

5. No of staff employed in the firm

( ) 1-10 ( ) 11-20 ( ) 21-30 ( ) 31-40 ( )>40

II. information about the respondent

1. Gender ( ) Male ( ) Female

2. Age: ( ) 20 to 27 ( ) 28 to 35 ( ) 36 to 45 ( ) 46 to 59 ( ) 60 or above

3. Academic level ( ) less than 1st degree ( ) 1st degree ( ) 2nd degree and above

If you are a student of ACCA, member of ACCA, FCCA, or CPA, the level you are in.....

4. Work Experience ( ) less than 2 years ( ) B/n 2 & 5 ( ) above 5 years

PART TWO: Questionnaires

I. Questionnaires on Auditor Perception for External Audit Practices

1. The compensation in the form of audit fee obtained from audit clints for audit services they give has no much impact on the quality of external audit service activities in the private audit firms

1. Strongly disagree 2. Disagree 3. Not sure 4. Agree 5. Strongly agree

2. Audit field work resalts can be summarized and audit report can be issued without an engagement partner review if the audit field work supervisor is senior enough.

1. Strongly disagree 2. Disagree 3. Not sure 4. Agree 5. Strongly agree

3. Service of external auditor is warranted by audit committee and satisfies the standards of professional code of ethics and government requirements.

   1. Strongly disagree 2. Disagree 3. Not sure 4. Agree 5. Strongly agree

4. You as external auditor must attend the Annual General Meeting of Shareholders of your clients to express your opinion as per the guidelines set by ACCA.

   1. Strongly disagree 2. Disagree 3. Not sure 4. Agree 5. Strongly agree

5. External auditor must act in the interest of shareholders and the government policy

   1. Strongly disagree 2. Disagree 3. Not sure 4. Agree 5. Strongly agree

6. There is proper oversight and regulation of external audit activities by the regulatory body AABE

   1. Strongly disagree 2. Disagree 3. Not sure 4. Agree 5. Strongly agree

7. External audit practice in Ethiopia can enhance tax collection by the Ministry of Revenue 1. Strongly disagree 2. Disagree 3. Not sure 4. Agree 5. Strongly agree

8. Governmental oversight agency and external auditors should work cooperatively for a quality audit service and to improve governmental income.

   1. Strongly disagree 2. Disagree 3. Not sure 4. Agree 5. Strongly agree

9. External audit service providers should discuss the results of their activities with audit committee and management, presenting also the arguments that justify the audit opinion with respect to the reliability and true and fair view of the audited financial statements. Terms of protecting the interests of owners.

   1. Strongly disagree 2. Disagree 3. Not sure 4. Agree 5. Strongly agree

10. Do you agree that external auditors should take the internal audit reports and use it as an input for their work?

    1. Strongly disagree 2. Disagree 3. Not sure 4. Agree 5. Strongly agree

11. For increasing the effectiveness of internal control system external auditors can give suggestions to the audit committee and those who are in charge of the company.

    1. Strongly disagree 2. Disagree 3. Not sure 4. Agree 5. Strongly agree

12. Do you agree that external auditors advise audit committee and management regarding the accounting policies adopted by the company, judgments and accounting estimates that are made?

1. Strongly disagree 2. Disagree 3. Not sure 4. Agree 5. Strongly agree

13. Management and audit committee can seek out external audit service about the effectiveness of the entity's internal audit function.

1. Strongly disagree 2. Disagree 3. Not sure 4. Agree 5. Strongly agree

II. Questionnaires on Current application of External Audit Practices

1. The compensation in the form of audit fee obtained from audit clients for audit services they give has no much impact on the quality of external audit service activities in the private audit firms

1. Unknown 2. Known, but never applied 3. Kown, but rarely applied

4. Kown and often applied 5. Known and always applied

2. Audit field work resalts can be summarized and audit report can be issued without an engagement partner review if the audit field work supervisor is senior enough.

1. Unknown 2. Kown, but never applied 3.Kown, but rarely applied

4. Kown and often applied 5. Known and always applied

3. Service of external auditor is warranted by audit committee and satisfies the standards of professional code of ethics and government requirements.

1. Unknown 2. Kown, but never applied 3.Kown, but rarely applied

4. Kown and often applied 5. Known and always applied

4. You as external auditor must attend the Annual General Meeting of Shareholders of your clients to express your opinion as per the guidelines set by ACCA.

1. Unknown 2. Kown, but never applied 3.Kown, but rarely applied

4. Kown and often applied 5. Known and always applied

5. External auditor must act in the interest of shareholders and the government policy

1. Unknown 2. Kown, but never applied 3.Kown, but rarely applied

4. Kown and often applied 5. Known and always applied

6. There is proper oversight and regulation of external audit activities by the regulatory body AABE

1. Unknown 2. Known, but never applied 3. Kown, but rarely applied

4. Kown and often applied 5. Known and always applied

7. External audit practice in Ethiopia can enhance tax collection by the Ministry of Revenue

1. Unknown 2. Kown, but never applied 3.Kown, but rarely applied

4. Kown and often applied 5. Known and always applied

8. Governmental oversight agency and external auditors should work cooperatively for a quality audit service and to improve governmental income.

1. Unknown 2. Kown, but never applied 3.Kown, but rarely applied

4. Kown and often applied 5. Known and always applied

9. External audit service providers should discuss the results of their activities with audit committee and management, presenting also the arguments that justify the audit opinion with respect to the reliability and true and fair view of the audited financial statements. Terms of protecting the interests of owners.

1. unknown 2. Kown, but never applied 3.Kown, but rarely applied

4.Kown and often applied 5. Known and always applied

10. Do you agree that external auditors should take the internal audit reports and use it as an input for their work?

1. unknown 2. Kown, but never applied 3.Kown, but rarely applied

4. Kown and often applied 5. Known and always applied

11. For increasing the effectiveness of internal control system external auditors can give suggestions to the audit committee and those who are in charge of the company.

1. Unknown 2. Kown, but never applied 3.Kown, but rarely applied

4. Kown and often applied 5. Known and always applied

12. Do you agree that external auditors advise audit committee and management regarding the accounting policies adopted by the company, judgments and accounting estimates that are made?

1. Unknown 2. Kown, but never applied 3.Known, but rarely applied

4. Kown and often applied 5. Known and always applied

13. Management and audit committee can seek out external audit service about the effectiveness of the entity's internal audit function.

1. Unknown 2. Kown, but never applied 3.Kown, but rarely applied

4. Kown and often applied 5. Known and always applied

Annex 2: interview questions

Questions for clients

1. Are you happy with the external audit service you're getting?
2. How much are you familiar with external audit and the regulations that come with it?
3. Do you think the external audit service your getting is efficient and they follow all the required regulations?
4. Do you think the fee you're currently paying for the external audit your getting is appropriate?
5. What could be improved with the external audit service your currently getting?
6. Do you utilize a single external audit firm every year and does that affect the tax you pay each year? If yes why?
7. Does your enterprise have internal auditors or audit committee?
8. Do you apply the suggestions given to you by external auditors?
9. Do you think external audit improves internal audit?

Questions for auditors

1. Are you satisfied with the audit practices rules and regulations in Addis Ababa?
2. Firms currently that operate as external auditors are well acquainted with the practice and rules and guidelines?
3. What are the main factors that affect external audit independence?
4. Do firms being audited disclose all necessary information?
5. Is communication between external auditors and management of firms being audited good?
6. How often do firms being audited ask you to do unethical things and how much does that affect tax reports?
7. Is the relationship between internal and external auditors good?
8. Does your audit work get appropriate review by your superiors and do they actively make sure that you follow all the regulations that are required?
9. Does AABE regulation affect day to day work?
10. Does AABE provide proper assistance and training?