Addis Ababa University

School of Business And Public Administration

Department of Accounting And Finance

The Impact of Extended Audit Tenure on Auditors Independence And Audit Quality In Addis Ababa

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A Thesis Submitted To The School Of Graduate Studies Of Addis Ababa University In Partial Fulfillment Of The Requirement For The Degree Of Masters In Accounting and Finance

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Statement of Certification

This is to certify that Amsalu Gelaneh has carried out his research work on the topic entitled "The impact of extended audit tenure on auditors independence and audit quality in Addis Ababa" under my supervision.

This work is original in nature and it is sufficient for submission for the partial fulfillment for the award of MSc In Accounting and Finance.

Advisor: Dr. Laxmikantham P.

Signature:------------------------

Date:----------------------------

Statement of Declaration

I, Amsalu Gelaneh, have carried out independently a research work on the topic entitled "The impacts of extended audit tenure on auditors independence and audit quality with regard to private auditors in Addis Ababa" in partial fulfillment of the requirement of the MSc program in Accounting and Finance with the guidance and support of the research advisor.

This study is my own work that has not been submitted for any degree or diploma program in this or any other institutions.

Amsalu Gelaneh

June 2011

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Acronyms/Abbreviations

AICPA:	American Institute of Certified Public Accountants
CPA:	Certified Public Accountants
ECSAFA :	Eastern, Central, and South African Federation of Accountants
ECSC :	Ethiopian Civil Service College
EFAA:	European Federation of Accountants and Auditors
EPAAA:	Ethiopian Professional Association of Accountants and Auditors
FASB :	Financial Accounting Standards Board
GAAP:	Generally Accepted Accounting Principles
GAAS:	Generally Accepted Auditing Standards
GAO:	Government Accountability Office
ICAA :	Institute for Certifying Accountants and Auditors
ICAEW:	Institute of Chartered Accountants of England and Wales
IFAC:	International Federation of Accountants
ISA:	International Standards on Auditing
NAS:	Non Audit Services
OFAG :	Office of the Federal Auditor General
POB :	Public Oversight Board
SOE :	State-Owned Enterprises
SOX:	Sarbanes Oxley SOX
U.S. SEC:	United State Securities and Exchange Commission

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Abstract

The independence of an auditor has not only been viewed as an ethical issue within the auditing professional bodies like the International Federation of Accountants (IFAC), but also it is the bedrock upon which a successful audit is based. The stakeholders require the auditors to stay true to the main credence of the profession as an independent outside third party to give an opinion on the true and fair view of the financial statements presented by management.

The main purpose of this study is to examine whether extended audit tenures can lead to the emergence of threats to auditor independence which will impair the auditor independence. Lack of audit quality and subsequent audit failures result mainly from a lack of auditor's independence which is considered to be a consequence of the extended auditor client relationship. In order to investigate the findings; the researcher used a sample of six audit firms which includes a total of 50 auditors in Addis Ababa. The researcher also used stratified random sampling technique and collected primary data through questionnaire. The responses gotten were analyzed using a quantitative and qualitative approach with the help of SPSS.

Actually, the results of the findings shows that both extended and short audit tenure has an impact on auditors independence and audit quality when it is considered under different threats even if the impact is worst in the case of extended audit tenure.

Chapter One - Introduction

This study examines the impact of extended audit tenure on auditors independence and audit quality in the context of Addis Ababa. Audit tenure is the number of consecutive years or duration of time that the audit firm (auditor) has audited the client. The longer audit tenure may affects the auditors independence and the quality of audit.

The main purpose of this chapter is to provide general information about the thesis. The next sections of this chapter is organized as follows. The first section present the general background information of the study, the second section sets out the statement of the problem, the third section puts the objectives of the study, the fourth section outlines the research questions, methodology is presented in the fifth section, the sixth section outlines the scope and limitations of the study and it is followed by the seventh section significance of the study and organizations of the chapter is presented at the end section of this chapter.

1.1. Background of the study

Auditor independence has been a major concern for a long time and considered as the most complicated and controversial, yet the cornerstone aspect of the auditing profession because it strengthens the profession's commitment to objectivity (Philmore et al., 2006). The reason for its complication and controversial nature is as a result of the many rules and regulations established over time by different professional and regulatory bodies (Eilifsen et al., 2006 cited in Etienne et al., 2010). Ensuring auditor independence is crucial to the process of financial reporting since it contributes to the quality of audit reports. Regulators require auditors to be independent in performing attestation services (Wuchun et al.,2004). As it is pointed out by Etienne et al. (2010), the European Commission has issued standards to be applied throughout the European Union considering the benefits of safeguarding auditor independence. Similarly, the USA enacted the Sarbanes Oxley (SOX) Act of 2002, which describes the independence requirements of US auditors (Hayes et al., 2004).

As it is pointed out by Deborah (2002), auditor independence helps to ensure quality audits and contributes to financial statement users' reliance on the financial reporting process. Geiger et al. (2002) noted that auditor's reports would not be credible to investors, creditors, and regulators if the auditors are not believed to be independent. Truly independent auditors are able to provide the public with higher-quality audits due to the lack of ties with the audited client. This lack of association with the client enables auditors to exercise unfettered professional judgment when planning and conducting the audit, and reporting the results of their findings in their audit report. Thus, independent auditors, it is argued, would be more likely both to detect and report significant negative information related to their audit clients (Geiger et al., 2002).

Flint (1988) cited in Abu et al. (2006) argued that independence will be lost if the auditor is involved in a personal relationship with the client, as this may influence their mental attitude and opinion. One of such threats is lengthy tenure. He contends that lengthy tenure in office may cause the auditors to develop "over-cozy relationships" as well as strong loyalty or emotional relationships with their clients, which could reach a stage where auditor independence is threatened. Lengthy tenure also results in "over familiarity" and consequently, the quality and competence of auditors' work may decline when they start to make unjustified assumptions instead of objective evaluation of current evidence. This problem may be perceived as a threat to auditor independence and recommends that auditors avoid situations that may lead them to become over-influenced or to be too trusting of the client's directors and key personnel which could consequently lead to audit staff being too sympathetic to the client interest (Abu et al., 2006).

According to Diana et al. (2010), the audit quality is one of the most significant topics in the auditing profession. As the auditor is able to detect and report on the existing material misstatements, the auditor process is considered as more effective and of a higher quality.

What might hinder the auditor's ability to perform at a high level of conduct to provide a high quality is the extended auditor client relationship (Jane et al., 2005). It was found that the extended auditor client- relationship as defined by the audit tenure would psychologically impair the auditor independence and audit quality, a matter which causes the auditor not to be able to perform with fully objectivity (Zalkaranian et al., 2005).

A sound solution that has been proposed and applied in different countries in order to overcome the problem of the lack of auditor independence is the mandatory auditor rotation (Chartered Institute of Management Accountants, 2002). Geiger et al. (2002) stated that, the proponents of mandatory auditor rotation have generally been concerned with a deterioration of auditor independence, and its effect on audit quality, as the length of auditor tenure increases. They argue that there is a tendency for auditors, over time, to gradually align with the wishes of management and thus not act completely independent. To alleviate this problem, the mandatory rotation practice imposes on the company to change its audit firm after a certain period of time (Arel et al., 2005 cited in Diana et al., 2010). As per Diana (2010), changing the auditor is said to be necessary and even required by law in different countries for mainly two reasons; first, in order to maintain the auditor independence which otherwise would be eroded due to the personal attachments between the clients. The second reason is to enhance the audit quality through promoting the creativity in audit testing approaches and methods which might be restricted due to increased familiarity with the client and staleness in performing the audit.

1.2. Statement of the problem

Independence is critically important to an auditor as it is regarded as being one of the fundamental principles underlying the auditor's work. However, different factors may impair the work of auditors independence and audit quality like the central issue of this study, extended audit tenure. In connection with this Chih et al. (2004) noted that one factor that may impair auditor independence is long auditor tenure (the length of the auditor- client relationship). When the auditor tenure gets longer, auditors are more likely to compromise on their clients accounting and reporting choices in order to retain the client. Setting a limit on the period of years an audit firm may audit a particular company's financial statements will improve auditor independence and audit quality (Chih et al., 2004).

Furthermore, Abu et al. (2006) argued that the profession does not object to auditors if the auditors serving their clients for a long period of time, because long period of service may lead to cozy relationships that may threaten auditor independence. Abu et al. (2006) also mentioned that independence is lost when the auditors have a personal relationship with clients of any size, which often arises when the tenure is long. There is a likelihood that the mental strength of the auditors will be at stake such that the objectivity of their opinion may not be enough to ensure all assertions made by management represent a true and fair view of the state of affairs. Therefore, there is the risk of an over-cozy relationship that may arise with extended audit tenures in office by the auditor for any particular client, which puts the auditor independence at great risk. The researcher think that close relationships could normally exist between auditors and their clients of any size most especially when they have extended tenures.

As per Rohami et al. (2009), auditor reporting quality is a basic ingredient to enhance the credibility of financial statements to those interested parties. However, this could not been seen if the auditor is not independence. Without independence, the process of auditing can be argued to the extent that the auditor would give bias opinion to their clients. One of the factors that would adversely influence auditor independence in giving their opinion is a close relationship between auditor and clients, namely long audit tenure. For example, Deis and Giroux (1992) cited in Rohami et al. (2009) found that the longer the auditors audit their clients the larger that lead to such close relationship between the audit firms and clients and consequently decrease audit quality.

Understanding the impacts of extended audit tenure on auditors independence and audit quality is the vital issue for the effective operation of any company. According to Etienne et al. (2010), the impacts of extended audit tenure on auditors independence and audit quality have been a much debated area among researchers though with different variables under consideration. The gap of such events was the major issues for the researcher and hence became the motivation for this study.

1.3. Objectives of the study

Depending on the problems which is discussed in the above, the study have both general and specific objectives.

1.3.1. General objective

The overall objective of this study is to assesses the impacts of extended audit tenure on auditors independence and audit quality in the context of private audit firms in Addis Ababa.

1.3.2. Specific objectives

As mentioned above, this study also has specifically aimed:-

- To examine different types of threats to auditor independence and audit quality under extended audit tenures in private audit firms in Addis Ababa.
- To assesses what extent the impact of extended audit tenure affects auditors independence and audit quality when it is compared with the short audit tenure.
- To suggest possible solutions and recommendations that help audit firms and other parties to achieve their objectives.

1.4. Research questions

In order to attain the desired objectives, the researcher initiated to study the problem based on the following broad research questions:

1. Do you believe that increased auditor tenure discourage audit quality?
2. How extended audit tenures have an impact on auditors independence and audit quality?
3. What kind of relationship exist between the auditors tenure and auditors independence?

1.5. Research methodology

In order to achieve the research objectives, both quantitative and qualitative (i.e. mixed approach) is adopted. The reason for the use of such a mixed method approach is to gather data that could not be obtained by adopting a single approach.

In the cases of sampling technique, the study adopted stratified random sampling because under stratified random sampling units from each main group are included and may be more reliably representative.

The study used survey of external auditors in the case of private audit firms in Addis Ababa with the main intention of how extended audit tenure affects the auditors independence and audit quality. The survey includes both open and closed end questionnaires. The reason for the use of questioner for this study is due to the fact that the main purpose of the study is to measure the effect that an extended audit tenure has an impact on auditors' independence and audit quality based on the auditors views and because of that, the researcher chose a questionnaire method of data collection techniques. The survey consisted 50 auditors from six audit firms and the questionnaire was distributed them.

1.6. Scope and Limitations of the study

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

1.6.1. Scope of the study

It is important to define the boundaries of this study such that the readers will aware of the direction to which this study is headed. Hence, the researcher considers from the perspectives of auditor's view for this study. It may be cumbersome for the researcher to consider both the client views and auditors' views. From a client's point of view, independence of the auditor and audit quality may have a different interpretation. Though similarities may exist, the level of seriousness may not be the same. Knowing how relevant this issue is to the auditing profession and the researcher solely look at independence and audit quality from the side of the auditors' rather than from the clients' views.

However, the increasing use of the word auditors in this study does not by any means refer to both external and internal auditors. That is to say the word auditors in this study refer only to external auditors. This is because the scopes of function for external and internal auditors are different in nature. As per Etienne et al. (2010), external auditors has their main responsible to express an opinion on the financial statements while the internal auditors concentrates to assert the operational effectiveness of the distinct internal business processes of a company. Etienne et al. (2010) further mentioned that though both types of auditors are required to be independent, the degree of the independence for external auditors is far too strong and mandatory. Therefore, this study does not consider the independence of internal auditors and when the researcher use the word auditors, it imply only to external auditors.

In general, the focus of this paper is aimed on the impact of extended audit tenure on auditors independence and audit quality in the context of private audit firms in Addis Ababa. However, the study also highlights the impacts of short audit tenure on auditors independence and audit quality to see what extent the impact of extended audit tenure affects auditors independence and audit quality when it is compared with short audit tenure.

1.6.2. Limitations of the study

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

- Low response rate from the questionnaire, because the respondents were very busy and they were not interested to fill the questionnaire due to insufficient time.
- The study is considered only from the view point of external auditors.
- The problem of knowing the total number of auditors under each audit firms, because of involuntary response from the audit firms.
- Lack of past studies relevant to the study title in the study area.

1.7. Significance of the study

The researcher believes that the result of this research paper would have the following significances.

- The study may help to suggest what seems to the researcher the most appropriate audit tenure based on the findings and literatures.
- It can show the impact of extended audit tenure on auditors independence and audit quality.

- The study may serve as a spring board for those who are interested to conduct further study on related topics.
- The study may contribute to the sum total of the body of knowledge.

1.8. Organizations of the chapter

The study deals on the impacts of extended audit tenure on auditors independence and audit quality in the context of Addis Ababa. The structure of this study is seems like as follows. The first chapter presents the introduction part of the thesis. From this chapter, the readers can gain a general understanding and enables them to perceive how the subsequent chapters will be discussed.

Chapter two presents the literature review. It consists the theoretical and empirical studies in addition with conclusion and knowledge gap related with the current study. To conduct the general study, this chapter cuts across some interesting articles, books, websites and some other official documents which can enable the readers to develop more understanding from the brief knowledge gained in chapter one about the central issues of the study.

Chapter three shows the research methodology, which reflects how the study is conducted. Under this chapter the rationality of each research approach is discussed briefly. In addition to that, this chapter also looks at the reason why the researcher chose this topic, the research approach and each of the options used in the study.

Chapter four includes both data presentations and the analysis of the results which is obtained from the methods adopted. This chapter tried to relate the research questions and objectives of the study.

The final chapter, chapter five provides conclusion and recommendations based on the whole study of the paper. From this chapter, the readers will be able to understand either the research question and the purpose of the study met or not.

Chapter Two - Literature Review

As it was noted earlier, the main objective of this study is to assess the impact of extended audit tenure on auditors independence and audit quality in the context of private audit firms in Addis Ababa. This chapter is focused on previous or existing literature related to the area under study and tries to relate these existing literatures to the current study. The main essence of this chapter is to get a grasp of what is already known within the area of this study.

The choices for the inclusion of the literature in this section is based on the relevance of the literature to the subject matter. Since the researcher consider auditor independence, audit quality and extended audit tenures, it is inevitable that literature on auditor independence, audit quality and audit tenures be included in this chapter.

This chapter tried to address different types of threats that impair auditor independence and audit quality. Auditor independence and audit quality can only be impaired when it is confronted by threats. Therefore, it is appropriate that this section expand on the types of threats and give examples to ease the understanding of previous and subsequent sections. As per Etienne et al. (2010), protecting auditor independence from impairment becomes a challenge to the auditor, audit associations and the clients as it greatly affects the auditor objectivity which is reflected in the audit. There is the scramble by all parties to safeguard the auditor independence which brings the section of categories of safeguards to threats to independence. Though the literature review should stay concise and precise to its theme, for more clarity, it may be important to draw in some other related issues that may justify some assertions. As it is mentioned earlier, the researcher do not consider extended audit tenures as the only source of threats to independence; therefore, it is important to give a brief discussion on at least another source of threats to independence that has been heavily criticized by both regulators and academics – non audit services (NAS).

In general, this chapter is shown in three sections. The first section outlines the theoretical aspects of the study such as the concept of auditor independence and its history, the role of AICPA and other professional and regulatory bodies on auditor independence, brief history of Ethiopian audit, threats and safeguards to auditor independence, audit tenure, audit quality, the linkage of NAS with Independence and audit quality. The second section present different empirical studies related with this study and finally conclusion with knowledge gap is presented at the end of this chapter.

2.1. Theoretical overview

This section tried to elaborate different theoretical explanations or overviews related with the impact of extended audit tenure on auditors independence and audit quality. In order to link different theories with this study, the researcher used different theoretical issues from different authors.

2.1.1. Auditor independence and its history

The issue of auditor independence is explained by different authors but with the same concepts. There is also historical progress which shows the development of auditor independence. The following section briefly discussed on this two issues.

2.1.1.1. Auditor independence

Auditor independence is considered the hallmark of auditing profession and viewed as the most essential factor in business sector in protecting the interest of several parties. In connection to this, the U.S. Securities and Exchange Commission (SEC) regards auditor independence as the cornerstone of the capital formation process and is crucial to the credibility of financial reporting (Sara et al., 2001). However debate about independence concepts has a long history and some elements of the accounting profession are suggesting that a radical turn away from historical and philosophical conceptions of independence is currently needed (Sara et al., 2001). Similarly, Swapan (2004) noted that, the issue of auditors independence has always been an important public concern and a matter of many debates in modern society. Swapan (2004) further stated that society confers upon a profession special rights because professional skills are service skills that benefit the mankind. This makes independence the guiding principle of audit profession.

As per Mahdi et al. (2009), the concept of auditor independence changed during the late 19^{th} and early 20^{th} centuries. Because there was a large shift from capital coming from some sources to capital deriving primarily from domestic sources, noted economic sectors means articulated this change that large corporations were based on the separation of ownership from management, which they also emphasized the growing importance and role of accounting and auditing. However, the concept of auditor independence has proved difficult to define precisely even if representative definitions are presented by different authors as follows.

Rocco et al. (1997) define auditor independence as the avoidance of any relationship which would be likely, even subconsciously, to impair the CPA's objectivity.

As per IFAC (2004), auditor independence is exercising professional judgment ought to be free from all economic, financial and other relationships. This is impossible, as every member of society has relationships with others. Therefore, the significance of economic, financial and other relationships should also be evaluated in the light of what a reasonable and informed third party having knowledge of all relevant information would reasonably conclude to be unacceptable (IFAC, 2004).

Appah (2011) define auditor independence as an attitude of the mind based on integrity and an objective approach to work. He maintained that an auditor must at all times, perform his work objectively and impartially and free from influence by any consideration which might appear to be in conflict with this requirement. Appah (2011) also noted that independence in auditing means having a position to take an unbiased view point in the performance of audit test, analysis of results and attestation in the audit report.

According to Smith (2011), auditor independence is the ability of a person conducting an audit to do so autonomously and with integrity. Auditors must be able to review material objectively and come up with a neutral, accurate, and honest report on the outcome of their investigations. When auditors lack this objectivity, it can compromise the value of the audit and may expose people to risks (Smith, 2011).

2.1.1.2. History of auditor independence

A brief history of the auditing profession and practitioner responsibility provides a solid basis for analysis of present day independence concerns. Independence, both historically and philosophically, is the foundation of the public accounting profession and upon its maintenance depend the profession's strength and its stature (Carey, 1970 cited in Mahdi et al., 2009). As per Etienne et al. (2010), independence has not been something of the present, but it stems right from the past. Therefore, it would be interesting to get a historical perspective about how independence has been viewed over the years by professional auditing bodies and regulatory bodies. It could clearly be seen that the way auditor independence is considered today, it is not in the same fashion as it was in the yesteryears. This greatly shows how independence has evolved over time and what pressure in terms of rules, laws and codes of ethics that professional and regulatory bodies have put in place to ensure that independence remains very relevant to auditors especially when they have extended tenures with their client (Etienne et al., 2010).

As it is noted by Etienne et al. (2010), the history of auditor independence has been somewhat overshadowed by most of the US professional, regulatory and legislative bodies. And these bodies set the pace for other professional and regulatory bodies in the world to follow. That notwithstanding, most of the professional and regulatory bodies took their rise from the US and even in this present times, they still align with the ethics, codes and standards set in the US.

Most governments through the professional auditing associations or bodies have implemented auditing standards that particularly promulgate standards that focuses on auditor independence (Vanasco et al., 1997). Some of these standards are so strong that may tantamount to the auditor been expelled from their professional association if they by any means abate and violate the Code of Ethics.

According to Lloyd et al. (2003), prior to the market crash of 1929, there was relatively little regulation of the securities markets in the United States. Financial disclosure was not required, as investors were concerned mainly with price appreciation, without regard to actual financial performance of the firms whose stock they owned. As per Lloyd et al

(2003), many of these investors lost large amounts of money in the stock market crashed in October 1929 and the depression that followed. These events caused public confidence in financial markets to falter, and in order to restore faith in capital markets, Congress passed the Securities Act of 1933 and the Securities Exchange Act of 1934, establishing what we now recognize as the Securities and Exchange Commission (SEC). Furthermore, it was the Securities Exchange Act of 1934 that required publicly traded firms to file financial reports with the SEC, so that the SEC could make the reports public. The same law also required that financial statements filed with the SEC be reviewed by an independent outside auditor. The SEC was given statutory authority to set accounting standards and oversee the activities of auditors, while the accounting profession was given the role of establishing auditing standards (AICPA, 2002 cited in Lloyd et al., 2003). Lloyd et al. (2003) further stated that despite the SEC's mandate to set accounting standards, it has generally relied on private sector standard-setting bodies to lead in the establishment and improvement of accounting standards. The American Institute of Certified Public Accountants (AICPA) was the main standard-setting body until 1972, when the primary responsibility of standard setting was transferred to the Financial Accounting Standards Board (FASB), which still sets the accounting standards today (Lloyd et al., 2003). As per Lloyd et al. (2003), the FASB accounting standards are officially recognized as authoritative by the SEC. The AICPA, through its Accounting Standards Executive Committee, works with the FASB in setting and clarifying accounting standards. Thus, the auditing profession has been self-regulated through the AICPA, which is a voluntary membership organization consisting of over 350,000 individual members, and approximately 1,200 national, regional, and local accounting firms are part of its SEC Practice Section (SECPS), which is a self-regulatory group whose aim is to improve the practice of CPA firms (Lloyd et al., 2003).

In general, the AICPA, the Canadian Institute of Chartered Accountants, the Cadbury Committee in the UK, and many others have recognized the importance of auditor independence as both a professional and ethical matter and codified it in their professional codes of ethics (Rocco et al.,1997). Rocco et al. (1997) further stated that In several countries, the implementation of auditor independence and the compliance with professional audit standards are carried out by their governments and, on many occasions, sanctioned by professional associations. However, audit independence in Africa, in Russia, and in some Middle East countries is still in its infancy where as audit independence in the Anglo-Saxon countries (Australia, Canada, UK, USA, and New Zealand) has reached a high level of sophistication owing to the influence of powerful accounting and auditing bodies (Rocco et al.,1997).

2.1.2. The Role of AICPA and other Professional and Regulatory Bodies on Independence

Rocco et al. (1997) pointed out that professional accounting associations and many government regulatory agencies throughout the world have emphasized that auditor independence is both an ethical and a professional issue, crucial to auditors. In response to the growing crisis, the AICPA embarked on a set of initiatives to conceptualize the future of financial reporting and auditing (Sara et al., 2001).

As it is pointed out by Vanasco et al., (1997), in 1962, the AICPA adopted rules on independence in its Code of Professional Ethics that prohibited members, associates or partners to express an opinion on the financial statements of a client unless they are independent in fact with respect to the enterprise; and they should not have any direct or indirect financial interests in an enterprise under audit by them. In November 1972, the AICPA Committee on auditing procedure issued statement on auditing standards which emphasizes auditor independence both in fact and appearance and stated that to be independent the auditor must be intellectually honest; to be recognized as independent, he must be free from any obligation to or interest in the client, its management, or its owners (AICPA, 1972 cited in Rocco et al.,1997). In the 1980s, several critics of the profession charged that the AICPA code of professional ethics did not serve the public interest (Rocco et al., 1997). In response to these charges the AICPA formed the Anderson committee in 1983 to review the code. This resulted in 1988 in the establishment of a new code of professional conduct related with auditor independence. In 1994, the AICPA's professional ethics division published a proposed interpretation of the profession's code of professional conduct to sharpen the distinction between client advocacy and client service (AICPA, 1994 cited in Rocco et al.,1997). Etienne et al. (2010) noted that in 1994, AICPA instituted that firms as well as individual CPAs should exercise professional independence before accepting an audit position in a client's accounting or financial reporting issues.

As per Rocco et al. (1997), the AICPA audit standards and the code of professional ethics both emphasize independence as a precondition in expressing an opinion on financial statements. The AICPA code of professional ethics states that a CPA shall not express an opinion on financial statements of an enterprise unless he and his firm are independent with respect to such enterprise and an opinion on the fairness of presentation of financial statements should be issued only if he or she is independent of the client both in fact and appearance (Rocco et al., 1997).

In February 1994, the POB and the SEC practice section (SECPS) appointed a three-member advisory panel on auditor independence (Rocco et al., 1997). The panel's charge was to determine whether the SECPS, the accounting profession or the SEC should take steps to ensure better the independence of auditors and the integrity and objectivity of their judgments on the appropriate application of generally accepted accounting principles to financial statements. One month later, on 16 March 1994, the POB announced the formation of a special panel to enquire into matters relating to auditor objectivity and independence. The panel recommended appropriate steps to bolster the professionalism of the independent auditor, and to assess the working relationships among the profession, the SEC, and the FASB (AICPA, 1995 cited in Rocco et al., 1997). As it is indicated by Rocco et al. (1997), on 13 September 1994, the POB's advisory panel on auditor independence issued its report titled, strengthening the professionalism of the independent auditor and the panel made some recommendations to improve auditor independence and strengthening corporate governance such as the independence of boards of directors must be enhanced to protect the interests of corporate investors, the auditor must consider, not corporate management, but the board of directors, as the representative of shareholders, to be its audit client and there should be more timely, more frequent, more open, and more candid communication between the auditor and the board.

The AICPA formed the special committee on financial reporting in 1991 to address concerns about the relevance and usefulness of business reporting (Sara et al., 2001). This Committee, commonly referred to as the Jenkins Committee, reported in 1994. The Jenkins Committee's work is part of a broad initiative to enhance the utility of business reporting, improve the prevention and detection of fraud, assure the independence and objectivity of the independent auditor, discourage unwarranted litigation that inhibits innovation and undermines the profession's ability to meet evolving financial reporting needs, and strengthen the audit profession's disciplinary system (AICPA, 1994, cited in Sara, 2001). The auditors in the American Institute of Certified Public Accountants (AICPA) just like their counterparts in different associations worldwide, are charged with the responsibility to attest on economic data presented by one party to another; and this attestation function will only be credible if the auditors are independent and competent (Etienne et al., 2010). In situations when the auditor is not independent and their competence is questioned, the effect could be clearly seen in the financial statements in that such data cease to become credible as it cannot be relied upon for strategic economic decisions by users.

As per Etienne et al. (2010), it could clearly be seen that independence is the foundation on which any successful audit relies on. If independence is tampered with, then it could be reflected in the audit report in terms of its quality. It may be possible that auditing a client for a longer period of time will provoke the auditor to have some kind of interest in the client. This may increase the auditors' dependence on the audit fees, fees paid for providing non-audit services and other related benefits that comes with providing the audit services. There is also a greater risk of the auditor having a financial interest in the client be it direct or indirect.

2.1.3. Brief history of the Ethiopian audit

Under this section, the history of audit in Ethiopia is briefly described. However, there is no a particular guide lines which explains about the history of the study area (Addis

Ababa). Therefore, the researcher considered the history of audit in Ethiopia includes the history of audit in Addis Ababa.

Ethiopia, situated in the horn of Africa, is the oldest independent country in Africa and one of the oldest independent countries in the world with the capital city of Addis Ababa. The Government of Ethiopia is committed to increasing private investment in its economy towards reaching its development and growth objectives. Strengthening the country's financial architecture will make available quality financial information to facilitate investment decisions and to help reduce the risk of financial crises and corporate failures together with their associated negative economic impacts that have been witnessed in many industrialized and developing countries. Regarding to this, there are some notable efforts in Ethiopia aimed at improving the quality of financial information. One is aimed at establishing accounting and auditing standards for the private sector under the auspices of the Office of the Federal Auditor General (OFAG) and the other is aimed at improving the capacity for public finance management under the auspices of the Ethiopian Civil Service College (ECSC) (World bank, 2007). In general, this section briefly explain the history and the recent phenomenon of audit in Ethiopia including Addis Ababa as follows.

The history of audit in Ethiopia dates back to the establishment of an Audit Commission (by proclamation No. 69/1944) and the audit which was largely responsible for the examination and control of the accounts of the Ministry of Finance and was directly accountable to the Prime Minister (OFAG, 2008). In 1946, proclamation No. 79/1946 was provided to centralize the audit and control of all Government accounts in one department by establishing the audit and control office under the direction of the comptroller and Auditor General who reported and was directly responsible to the Prime Minister (OFAG, 2008)

Senait (2003) mentioned that, Articles 120 and 121 of the revised constitution of 1955 clearly conferred the rights and duties of auditing all ministries, departments, and agencies to the Auditor General, whose office was then established as a separate, independent entity that reported directly to the Emperor and to Parliament. These articles required the Auditor General to submit periodic reports to the Emperor and to Parliament on the financial operations of the government, and entitled the Auditor General to access all books and records pertaining to government accounts. Subsequently, the functions of the Auditor General were amended by decree No. 32 of 1958, which was later renumbered as proclamation No. 179/1961 (OFAG, 2008). This proclamation has dealt with the appointment and independence of the Auditor General in addition to defining its powers and duties, which include auditing the accounts of all autonomous bodies existing by virtue of Imperial Charters (chartered organizations). The Auditor General was then appointed by the Emperor and reported to him and the Parliament. The Office of the Auditor General conducted the audit of the Chartered Organizations, which were established to provide essential services to the public, through its chartered Organizations Audit Department (OFAG, 2008).

According to OFAG (2008), after the 1974 Ethiopian revolution, proclamation No. 164 of 1979 was enacted to redefine the powers and duties of the Auditor General giving additional responsibility of auditing mass organizations, development projects as well as conducting performance auditing. Besides, the programme of nationalization has created difficulty for the Office of the Auditor General to cope with the need to audit an increasing number of public enterprises through its chartered organizations Audit Department mainly due to lack of qualified manpower. Consequently, following a study made by the Office of the Auditor General the Audit Services Corporation was established by proclamation No. 126 of 1977 to render audit services to production, distribution and service giving organizations of which the Government is the owner or majority shareholder. Later on, the National Shengo provided proclamation No.13/1987 to establish the Office of the Auditor General of the peoples Democratic Republic of Ethiopia. This proclamation was in effect until the country introduced the new Federal Government structure in 1994. After the overthrow of the Military regime in 1991 and the establishment of a Federal State Structure by the 1994 Constitution of Ethiopia, the whole arrangement of government auditing structure changed, and germane to this duties and responsibilities were separated in to the Federal and Regional audit institutions. Following this Law every regional state's council promulgated a proclamation to establish an audit office. While article 101 of the New Federal Government Constitution provided the basis for the appointment, powers and duties of the Federal Auditor General, article 33 and 34 of the Proclamation No. 7/1992 specified the accountability, powers and duties of the Head of each National/Regional Audit and Control Office. Based on the aforementioned constitutional provisions proclamation No. 68/1997 was enacted to establish the Office of the Federal Auditor General (OFAG) which gave the power and duty to undertake Financial and Performance audits (or cause to be audited) on accounts of the federal government offices and organizations, accounts involving budgetary subsidies and special grants extended by the Federal Government to Regional States.

World bank (2007) noted that, the Office of the Federal Auditor General and the Ethiopian Civil Service College have been given some legislative authority for regulating the accountancy profession. As per World bank (2007), OFAG was set up to make efforts in co-operation with concerned organs, to promote and strengthen accounting and auditing professions. OFAG has other broader responsibilities as provided for in the country's constitution. Article 101 (2) of the Constitution states that the Auditor General shall audit and inspect the accounts of ministries and other agencies of the Federal Government to ensure that expenditures are properly made for activities carried out during the fiscal year and in accordance with approved allocations and submit his reports to the House of Peoples Representatives. The activities of OFAG in regulating the profession include licensing of all auditors in the country, issuing a Code of Ethics for Professional Accountants, and taking disciplinary measures on proven acts of misconduct by professional accountants. World bank (2007) also indicate that, the ECSC was re-established through Council of Ministers Regulations No.121/2006. One of its objectives, as set out in these regulations, is to formulate standards and certify professionals. For these purposes, the ECSC has established Institute for Certifying Accountants and Auditors (ICAA).

According to World bank (2007), the Ethiopian Professional Association of Accountants and Auditors (EPAAA) has no legal backing and is not a member of International Federation of Accountants (IFAC). The EPAAA was founded in 1972. From 1974 until

1992, EPAAA stayed dormant because of an unfavorable political environment. Following a change of government in 1991, EPAAA was revived. As per World bank (2007), it has increased its membership from only 10 members in public practice in 1992 to 100 members (30 in public practice) as of September 2007 and It has also membership in Eastern, Central, and South African Federation of Accountants (ECSAFA). EPAAA's purpose is to further professional accounting and auditing in Ethiopia. However, there are two main issues undermine the position of EPAAA as it is mentioned above by World bank (2007). The first one is EPAAA does not have legal backing in the country's laws and the second one is EPAAA does not have IFAC membership.

Ethiopia does not have a quality assurance program for auditors (World bank, 2007). A quality assurance program checks the auditors' work at both partner and firm level, and ensures that auditors conduct their duties with outmost professional diligence. The program also identifies areas that become a source of designing training programs to improve the capacity of auditors. Establishing a country-level quality assurance program is an international good practice. Under this program, the professional accountancy body develops quality control standards and relevant guidance, requiring audit firms to establish the quality control policies and procedures necessary to provide reasonable assurance of conforming to professional standards in performing services. To ensure that audit firms have effective quality control arrangements, a mechanism of independent review must be in place. However such a review mechanism does not exist in Ethiopia (World bank, 2007).

As it is mentioned by World bank (2007), most of the major international audit firm networks had presence in Ethiopia prior to 1974. When in 1974 the Government changed to a Socialist system, all the international audit firms closed their offices in Ethiopia. Those audit firms have not yet returned to the country although there is no law or regulation which hinders them to operate in Ethiopia and with this situation, the auditing profession in the country may be losing exposure to international expertise (World bank, 2007). Furthermore, World bank (2007) noted that, appointment of auditors in Ethiopia is usually through bidding process with hardly any regard to technical expertise. Most auditors complained that the audit fees in the country are very low, mainly caused by a practice where most appointments for auditors are done through a bidding process, with little or no regard of professional expertise. This is indicative of little appreciation of high quality audit services. World bank (2007) further stated that, every auditor determines accounting standards for their clients. Most institutions follow advice of their auditors on how to prepare financial statements. Most auditors also tell their clients how to prepare financial statements. It appears therefore that auditors determine accounting standards for their clients.

The operation of audit may be viewed in terms of internal and external audit. Since 1987, internal audit in Ethiopia seems to have been developing with a substantial government emphasis for this development (Mihret, James & Mula 2009 cited in Dessalegn et al., 2011). In the case of external audit, Dessalegn et al (2011) identified the two external audit sub-markets in the corporate governance setting of Ethiopia. The first is external audit of state-owned enterprises (SOEs). SOEs are fully government-owned and are governed by board of directors according to proclamation No. 25/1992 (Government of Ethiopia, 1992). Audit Service Corporation (hereafter, ASC), which was established by proclamation No.126/1977 (Government of Ethiopia, 1977), undertakes external audit of SOEs. This sector has a substantial prominence in the Ethiopian economy; for example, SOEs held more than 75 percent of the loan portfolios of commercial banks in the country as of July 2007 (World Bank, 2007 cited in Dessalegn et al., 2011). The second sub-market comprises private audit firms. There were 65 licensed auditors in Ethiopia as of October 2008 out of which 12 were relatively large and approved by USAID (USAID, 2004 cited in Dessalegn et al., 2011). Private audit firms are responsible for the audit of private sector organizations and obtain clients through competitive bidding, which led to a fierce competition in Ethiopia's private sector audit-sub market (Dessalegn et al., 2011).

Regarding to the number of private audit firms, Desalegn et al . (2011) found that there were a total of 65 private audit firms in Ethiopia, registered by the Federal Office of Auditor general. As it is found from the OFAG, the number of private audit firms in

Addis Ababa is 52. It implies that the remaining 13 private audit firms are found in the regional state. Therefore, one may understand that the development of audit firms in Addis Ababa is better when it is compared with the regional audit firms.

2.1.4. Categories of auditor independence

Philmore et al. (2006) and IFAC (2004) noted that, auditor independence can be assessed in two ways , that is, independence in mind and independence in appearance.

2.1.4.1. Independence in mind

According to IFAC (2004), independence in mind is the state of mind that permits the provision of an opinion without being affected by influences that compromise professional judgment, allowing an individual to act with integrity, and exercise objectivity and professional skepticism. Independence in mind (or actual independence) is the auditor's state of mind, his or her ability to make objective and unbiased audit decisions and it is basically refers to the mental attitude of the auditor in terms of professional objectivity (Gul and Tsui, 1992, Dykxhoorn and Sinning, 1982 cited in Nur et al., 2005). As per Philmore et al. (2006), Independence in mind or fact refers to the actual objective state of the relationship between auditing firms and their clients. Similarly, Appah (2011) noted that, Independence in mind requires the auditor to be free from bias, personal interest, prior commitment to an interest or susceptible to undue influence. This means that an average auditor possessing the requisite state of mind will act in the correct way that will not affect the professional duty of due care and skill.

2.1.4.2. Independence in Appearance

According to Nur et al. (2005), independence in appearance (or perceived independence) refers to the public's or others' perceptions of the auditor's independence. This notion of independence (i.e. perceived audit independence – PAI) is one of the cornerstones of auditing theory and the sine qua non or essential conditions or prerequisite of auditing practice. Since independence in appearance relies on the perceptions of users of financial statements, thus, it is an empirical concept (Busse von Colbe and Lutter, 1977; Dykxhoorn and Sinning, 1981 cited in Nur et al., 2005). Philmore et al. (2006) also stated that, Independence in appearance refers to the subjective state of that relationship as perceived by clients and third parties. Similarly, Eilifsen (2009) mentioned that Independence in appearance relates to a third party's perception regarding the auditor's independence. If the third party doesn't think that the auditor appears to be independent, even though the auditor is independent in his mind, the third party don't trust the auditor due to certain circumstances or relationships which are incompatible with independence and the promise of the assurance that the auditor is supposed to provide is lost.

Church and Zhang (2002) cited in Appah (2011) conclude that Independence in fact enhances the reliability of financial statements whereas appearance promotes public confidence as to enable users rely on financial statements.

2.1.5. Threats to auditor independence and audit quality

Independence can be influenced by difference threats. According to IFAC (2004), independence is potentially affected by self-interest, self-review, advocacy, familiarity and intimidation threats.

2.1.5.1. Self-interest threat

Self-interest threat occurs when a firm or a member of the assurance team could benefit from a financial interest in, or other self-interest conflict with, an assurance client. Examples of circumstances that may create this threat include: a direct financial interest or material indirect financial interest in an assurance client; a loan or guarantee to or from an assurance client or any of its directors or officers; undue dependence on total fees from an assurance client; concern about the possibility of losing the engagement; having a close business relationship with an assurance client; Potential employment with an assurance client; and contingent fees relating to assurance engagements.

2.1.5.2. Self-review threat

Self-review threat occurs when any product or judgment of a previous assurance engagement or non-assurance engagement needs to be re-evaluated in reaching conclusions on the assurance engagement or when a member of the assurance team was previously a director or officer of the assurance client, or was an employee in a position to exert direct and significant influence over the subject matter of the assurance engagement. Examples of circumstances that may create this threat include: a member of the assurance team being, or having recently been, a director or officer of the assurance client; a member of the assurance team being, or having recently been, an employee of the assurance client in a position to exert direct and significant influence over the subject matter of the assurance engagement; performing services for an assurance client that directly affect the subject matter of the assurance engagement; and preparation of original data used to generate financial statements or preparation of other records that are the subject matter of the assurance engagement.

2.1.5.3. Advocacy threat

Advocacy threat occurs when a firm, or a member of the assurance team, promotes, or may be perceived to promote, an assurance client's position or opinion to the point that objectivity may, or may be perceived to be, compromised. Such may be the case if a firm or a member of the assurance team were to subordinate their judgment to that of the client. Examples of circumstances that may create this threat include : dealing in, or being a promoter of, shares or other securities in an assurance client; and acting as an advocate on behalf of an assurance client in litigation or in resolving disputes with third parties.

2.1.5.4. Familiarity threat

Familiarity threat occurs when, by virtue of a close relationship with an assurance client, its directors, officers or employees, a firm or a member of the assurance team becomes too sympathetic to the client's interests. Examples of circumstances that may create this threat include: a member of the assurance team having an immediate family member or close family member who is a director or officer of the assurance client; a member of the assurance team having an immediate family member or close family member who, as an employee of the assurance client, is in a position to exert direct and significant influence over the subject matter of the assurance engagement; a former partner of the firm being a director, officer of the assurance client or an employee in a position to exert direct and significant influence over the subject matter of the assurance engagement; long association of a senior member of the assurance team with the assurance client; and acceptance of gifts or hospitality, unless the value is clearly insignificant, from the assurance client, its directors, officers or employees. Regarding to this, Fearnley et al. (2005) found that a close friend or relative being involved in the management of a client (familiarity threat) have an impact on auditors independence and audit quality.

2.1.5.5. Intimidation threats

Intimidation threat occurs when a member of the assurance team may be deterred from acting objectively and exercising professional skepticism by threats, actual or perceived, from the directors, officers or employees of an assurance client. Examples of circumstances that may create this threat include: threat of replacement over a disagreement with the application of an accounting principle; and pressure to reduce inappropriately the extent of work performed in order to reduce fees. As per Fearnley et al.(2005), Intimidation threat is the most frequent threat where intimidation is accompanied by the underlying threat from management of removal of the auditor and where directors may attempt to overcome the auditor's objections by employing aggressive behavior without any underlying threat of removal from office.

In addition to the above mentioned threats, Nur et al. (2005) and Appah (2011) explained some other factors that have been examined by previous studies on perceptions of auditor independence. These factors are size of audit firm; level of competition in the audit services market; tenure of audit firms serving the needs of a given client; size of audit fees received by audit firms; provision of managerial advisory services by audit firms to the audit clients; and the existence of audit committee.

- **Size of audit firm**-The majority of empirical studies that attempted to find the relationship between audit firm size and AI found that there is a positive relationship between them (Simunic, 1980; DeAngelo and; Shockley, 1981; Shockley and Holt, 1983; Nichols and Smith, 1983; Dopuch and; McKinley et al., 1985; and Gul, 1989 cited in Nur et al. (2005). Basically, a positive relationship means that the larger the audit firm size, the greater the auditor's independence. They prove that large firms are more resistant to client pressures, thus maintaining higher audit independence. In fact, it has been argued that large firms, due to their very size, may be more able and motivated to provide better audits.

- **Level of competition in the audit services market-** A number of empirical studies have proven that the high level of competition in the audit firm has resulted in less auditor independence (Shockley, 1981 and Knapp, 1985 cited in Nur et al., 2005). Similarly, Swapan (2004) noted that, when there is high competition within the accounting profession, there is a great options for directors to replace one auditor with another easily and It has placed the auditors in a disadvantageous position vis-a-vis directors. However, Gul et al. (2007) found the opposite.
- **Tenure of an audit firm serving the needs of a given client-**An audit firm's tenure, which is the length of time it has been filling the audit needs of a given client, has been mentioned as having an influence on the risk of losing an auditor's independence (Nur et al., 2005). Most writers, who discuss the relationship between tenure and AI, support this view. A long association between a corporation and an accounting firm may lead to such close identification of the accounting firm with the interests of its client's management that truly independent action by the accounting firm becomes difficult (US Senate, 1976 cited Nur et al., 2005).

  As it is pointed out by Mautz and Sharaf (1961), in many cases, the greatest threat to the auditor's independence is a slow, gradual, almost casual erosion of honest disinterestedness. Complacency, lack of innovation, less rigorous audit procedures and a learned confidence in the client may arise after a long association (Nur et al, 2005). As it is mentioned by Nur et al. (2005), the US Congressional Subcommittee on Reports, Accounting and Management (the "Metcalf Committee",1976) considered that the above dangers are serious enough to recommend the mandatory rotation of auditors as a possible remedy. Rotation ensures that the auditor remains independent since tenure will be limited and any vested interest will no longer be relevant (Nur et al., 2005). However, In a study conducted by Randolph (1981), tenure was not found to have a significant impact on perceptions of auditor independence.
- **Size of audit fees received by audit firm (in relation to total percentage of audit revenue)** –As per Nur et al. (2005), when talking about the relationship between size of audit fees and AI, large size of audit fees are associated with a higher risk of losing

the auditor's independence. The Accountants International Study Group (1976) cited in Nur et al. (2005) recommended that auditors be restrained from accepting engagements for which the fees constitute 10 percent or more of the auditors' total fee income. In addition to this, , the EFAA (1998) cited in Nur et al. (2005) clearly states that, the total fee from one client should not exceed a certain percentage of the total turnover of the audit firm. Regarding to this, In Malaysia, Noordin (1990) cited in Nur et al. (2005) expresses his concern that a code of ethics should provide guidance to limit over-dependence on one client for revenue. Nur et al. (2005) noted that, the ICAEW has ruled that the size of audit fees of a major client should not exceed 15 per cent of total fees to avoid impairment of auditor independence. This 15 per cent criterion has also been the level generally used in Australia at which auditors have to consider their independent position and there is even a suggestion that the 15 percent is too low (Nur et al., 2005).

- **Management advisory services (MAS)-** As per Lloyd (2003), MAS is the most common factor that apparently affects auditor independence and audit quality. Swapan (2004) also stated that, the problem for auditors independence and audit quality is worse in case of other services. Several empirical surveys were also conducted in order to find how third parties, auditors and firms view this issue. The studies by Shockley (1981), Pany and Reckers (1983, 1984) and Knapp (1985) cited in Nur et al. (2005) all find that the provision of MAS negatively affect auditors independence and audit quality. They believe that these collateral services create a working relationship between the auditor and the client that is too close. Based on this, Nur et al. (2005) conclude that the loss of confidence in the external auditor increased significantly specially when non-audit fees paid to the auditor exceeded 50 per cent of the audit fees.

Contrary to the above, some other studies found a positive relationship between MAS provision and auditors independence and audit quality. Goldwasser (1999); Wallman, (1996) cited in Nur et al. (2005) believe that MAS provision enhances the auditor's knowledge of the client, thus increasing the auditor's objectivity. According to

Goldman et al . (1974) who support this view, the addition of management services increases the power and independence of the auditors. They argued that this occurs because most consulting-type services are non-routine and because these services benefit the client firm directly.

- **Audit committees**-There is much support to suggest a positive relationship between audit committees and auditor independence. As per Swapan (2004), audit committee can be an important instrument for improving auditors independence by providing a buffer between the audit firm and company management and promoting healthy debate on accounting matters. Basically, a positive relationship between audit committees and auditors independence means that the existence of an audit committee will enhance auditor's independence (Nur et al., 2005). According to Teohet et al. (1996), in their study find that the formation of audit committees has a strong positive impact on enhancing auditor independence. Similarly, Patten and Nuckols (1970), Knapp (1985) and Lau and Ng (1994) cited in Nur et al. (2005) find that the existence of an audit committee increases the likelihood of bankers' approving a loan, which is a reflection of an increased confidence in the auditor. On the contrary, Gul (1989)finds that audit committees did not significantly affect the perceptions of auditor independence.

In general, Nur et al. (2005) on his study puts the ranking of factors according to their importance/degree in influencing the auditor's independence and audit quality as follows:

1. the size of the audit firm;
2. the tenure of an audit firm;
3. the level of competition among audit firms;
4. the existence of an audit committee;
5. the provision of MAS; and
6. size of audit fees.

2.1.6. Safeguards to auditors independence and audit quality

The firm and members of the assurance team have a responsibility to remain independent by taking into account the context in which they practice, the threats to independence and the safeguards available to eliminate the threats or reduce them to an acceptable level (IFAC, 2004). When threats are identified, appropriate safeguards should be identified and applied to eliminate the threats or reduce them to an acceptable level. The nature of the safeguards to be applied will vary depending upon the circumstances.

Being either a short or extended tenured auditor, the professional auditing bodies require the auditing firms to have the necessary safeguards in place to shield their independence (Etienne et al., 2010). Though the professional bodies have well outlined safeguards, the auditors do face different clients that pose varied threats to their independence. The auditors' safeguards should be such that they can easily detect, prevent and correct any threats that can arise to threaten their independence (Etienne et al., 2010). As it is explained by Etienne et al. (2010), auditors who do have extended audit tenures must have to adapt their safeguards to the changing times. When the clients' businesses change over time, there are a lot of challenges and threats that appear along with them. Auditors who do have extended tenures stand a greater risk of losing their independence if their safeguards remain the same as the clients' businesses change ver time. This is because some of the safeguards could simply be out of place to face the new threats that surface.

According to IFAC (2004), consideration should always be given to what a reasonable and informed third party having knowledge of all relevant information, including safeguards applied .The consideration will be affected by matters such as the significance of the threat, the nature of the assurance engagement, the intended users of the assurance report and the structure of the firm.

As per IFAC (2004), safeguards fall into three broad categories:

2.1.6.1. Safeguards created by the profession, legislation or regulation

These are safeguards present in ethical or professional standards or laws (legislation) as well as acts or rules put in place by professional, legislative and regulatory bodies to deter threats and preserve the auditor's independence (Etienne et al., 2010).

As it is stated by IFAC (2004), this types of safeguards include:

- Professional accounting and auditing ethical standards.
- Professional rules and legislation governing independence requirements of firms.
- Educational training and experience requirements before becoming a certified practitioner of the profession and peer review of quality control.

2.1.6.2. Safeguards created within the auditor and audit firm's own system and procedures

According to Etienne et al. (2010), these types of safeguards are firm-wide safeguards implemented by the auditor which guides the procedure of undertaking task within the audit firm's system.

IFAC (2004) incorporate the following examples under this types of safeguards:

- ✓ Leadership of the firm constantly stressing on the importance of independence.
- ✓ Policies and procedures that ensure and assure quality control of engagements.
- ✓ Appointing a senior member to oversee the adequate functioning of the safeguard system.
- ✓ Constant rotation of senior personnel.
- ✓ Implement a disciplinary mechanism to promote compliance with policies, procedures and fundamental ethical standards and principles.
- ✓ Policies and procedures that monitor and manage the reliance of revenue received from a single client.

2.1.6.3. Safeguards created and maintained within the client

As per Etienne et al. (2010), these safeguards are created and maintained within a particular client as the threats that may be involved may not be the same from client to client.

IFAC (2004) also considers the following example for this types of safeguards.

- Competent employees with experience and seniority that can take managerial decisions within the client.
- An effective corporate governance structure like the audit committee in the client firm that provides appropriate oversight and communications regarding the firm's exercises.
- The client's commitment to fair financial reporting.

Eilifsen et al. (2006) cited in Etienne et al. (2010) noted that different safeguards can be used to mitigate different threats, and one safeguard can be used to mitigate more than one threat simultaneously. Etienne et al. (2010) noted that, the threats to auditor independence do not come from space. These threats emerge mostly from the actions of the auditor. It is important to identify some of the two most important sources that propel or cause for these threats (Etienne et al., 2010). These are the provision of non-audit services and the audit tenure which is one of the central themes of this study. The following sections will romp through on non- audit services and how it relates to this study.

2.1.7. Audit Tenure

Audit tenure refers to the duration or length of time in which the auditor serves their clients. The tenure of the auditor may be short or long in their clients. As per Joseph et al (2004), short auditor tenure can be taken as three years or less, and long auditor tenure as nine years or more. The effects of audit tenure on auditors independence and audit quality is argumentative. As it is stated by Joseph et al. (2004), there are essentially two opposite views as to the relation between auditor tenure and audit quality.

Ann (2000) found that, a long auditor client relationship is better than the short auditor client relation ship for the audit firm to do the audit more efficiently. A newly appointed auditor might fail because of a lack of a thorough understanding of the client. Means that new auditors would make more mistakes than the experienced auditors. In line with this, Geiger and Raghunandan (2002); Johnson et al. (2002); Ghosh and Moon (2003) and Myers et al. (2003) cited in Joseph et al. (2004) find that audit quality is higher given longer auditor tenure. Practitioners argue, based primarily on concerns about auditor knowledge, that audit quality is lowest in the early years of the auditor-client relationship and that quality is higher given longer tenure (Joseph et al., 2004).

On the other hand, it is argued that a long auditor client relationship can decrease audit quality and auditor independence. Regarding to this, Davis et al. (2002) pointed out that, audit quality declines with extended tenure because, as tenure increases, client firms have greater reporting flexibility and earnings forecast errors decline. Rohami (2004) argued that, the longer the auditors audit their clients, the larger that lead to such close relationship between the audit firms and clients. This long relationship between the auditor and the clients will impair the independence of the auditors. Similarly, Gul et al. (2007) stated that, extended audit tenures have received much criticism from regulatory bodies, congressional bodies, academics and the press. This is because most proponents against long tenure like the regulatory bodies believe that the auditor independence will be impaired and hence the audit quality. They are of the opinion that when the auditors have extended audit tenures, there is the tendency for the auditors to gradually align themselves with the wishes of the management and hence cease to be independent (Geiger et al., 2002).

Since audit tenure has received extensive attention, the responsibility of setting how long an audit tenure should be rest on the regulators, whom in most cases work in tandem with the government (Etienne et al., 2010). For example, the term of auditor appointment is three years in Belgium, which can subsequently be renewed without limitation for further three-yearly periods. The Spanish Audit law of 1988 had a provision that required mandatory rotation of auditors after every 9 years (Carrera et al., 2007). This was to ensure that no one auditor stays more than 9 years with a single client, hence setting the length of audit tenures at 9 years. Brazil and Italy are required by law to rotate their independent auditors after every 5 and 9 years respectively; therefore, setting lengths of audit tenures to 5 and 9 years in Brazil and Italy respectively (Andrew et al., 2008). Similarly, the lengths for audit tenures in US are set at 5 years only for audit partners according to a provision in the SOX Act enacted after the collapse of Enron (Healey & Kim, 2003 cited in Etienne et al., 2010).

Finally, Joseph et al. (2004) argued that, audit quality could be lower given short auditor tenure because of the auditor's lack of knowledge and lower given long auditor tenure because of the auditor's lack of objectivity, both compared with medium auditor tenure.

2.1.8. Audit quality

As per Ann (2000), audit quality is one of the most important issues facing the auditing profession. However, the definition of audit quality has been hard to standardize for analysts since audit quality has a different meaning to different people (Carl et al., 2010). Investors may think that the purpose of audit is to ensure that there are no material misstatements or frauds in the financial statements (Wooten, 2003 cited in Carl et al., 2010). Accordingly, investors rely on the independent auditor to detect material misstatements caused by i.e. less reliable accruals. An auditor on the other hand may see audit in another perspective where managing business risk and minimizing client dissatisfaction besides strictly following the GAAS are very important factors (Wooten 2003 cited in Carl et al., 2010).

According to Masoud et al. (2006) define audit quality as a function of the auditor's ability to detect material misstatements (auditor competence) and report those detected misstatements (auditor independence). Similarly, Alan (2007) defined audit quality as the probability that an auditor will both discover a breach in the accounting system and further report the breach. Alan (2007) further stated that, the probability that an auditor will detect a breach depends largely on the probability of discovery, which is related to the auditors' competence and the probability that an auditor will report the detected breach is related to the auditors' independence. In essence, in order to create a demand, or increase the demand for auditing, auditors have to convince the market that they can detect breaches and are in a position to report them. Audit quality is, therefore, dependent upon the auditors' ability to avoid misstatements.

As per Carl et al. (2010), there are many factors that affect the detection and reporting of misstatements such as the performance of the audit team that is set to do the audit. The outcome of the audit performance by the audit team depends in turn on the independence, resources and control processes of the auditor firm. One factor that has often served as a substitute for these audit team and audit firm factors is size of auditor and since the outcome of audit quality is not immediately observable thus problematic to measure, size of auditor is one of the most used surrogates for audit quality (Wooten, 2003). According to Carl et al. (2010), big audit firms are more prone to reporting errors in the financial statements and consequently providing higher quality of audit where as smaller audit firms have fewer amounts of clients and a stronger dependency to their clients thus they have more incentive to behave opportunistically rather than reporting errors. In other words, larger audit firms in general yield higher audit quality than smaller audit firm. Moreover, DeAngelo (1981) states that other factors such as audit fee are also correlated with quality of audit. The reason for this is that auditors have incentives to uphold audit quality since they can capture higher fees by doing so. Conversely, if auditors cheat in their reporting and supposedly they get caught, they face a risk of being terminated by their clients and receiving reduced fees from clients that continue to retain them. From another perspective, again, in order to thoroughly report material misstatements the auditor firm must be independent from their clients. If an auditor is dependent on a client, the auditor may feel pressure to avoid reporting certain accounting deficiencies and therefore the auditor tend to do whatever it takes to keep the client, otherwise the auditor firm risk to lose future audit fees (Carl et al., 2010). This interpretation of the association between audit fee and audit quality implies that audit fee is not correlated with high quality of audit.

Audit tenure is another factors for the quality of audits. Regarding to this, Aloke et al. (2005) noted that audit quality declines with extended audit tenure because, as tenure increases, client firms have greater reporting flexibility and earnings forecast errors decline.

2.1.9. Non-Audit Services (NAS), Independence and audit quality

It has been a common practice for auditors to perform NAS to their clients. As it is stated by Praveen (2009), the issue of how the provision of non-audit services affects auditor independence has been and remains an important question for regulators, policy makers, and academicians alike. Non-audit services may be any services other than audit provided by an auditor to an audit client (Appah, 2011). The issue of providing non-audit services and its impact on audit quality has been extensively researched in the accounting and auditing literature and this empirical evidence on the effect of NAS on auditor independence and audit quality is mixed. Some of these maintain that non-audit services impair objectivity as well as independence whereas others argue that there exists positive relationship between auditors independence and the provision of non-audit services.

DeAngelo (1981) and Beck et al. (1988) argued that non-audit related services can create an economic bond between the auditors and the client that can compromise auditor independence and reduce audit quality. Wines (1994), Elstein (2001), Frankel, Johnson and Nelson (2002) cited in Alan (2007) found a negative association between NAS and qualified audit opinions, indicating the potential for an independence problem in the presence of NAS.

On the other hand Simunic (1984) cited in Praveen (2009) have argued that knowledge spillovers from the provision of non audit services can improve audit quality. Means that, Non audit services in which auditors provide technical advice based on their technical knowledge and expertise do not impair auditor independence with respect to entities they audit and do not require the audit organization to apply the supplemental safeguards.

As the audit tenure extends, the auditors stand a greater chance of earning more NAS because of increased knowledge of the client's business operations which eventually result to knowledge spillover (Beattie et al., 1999). As per Ann (2000) audit firms are not allowed to provide non-audit services to an audit client within the same legal in Belgium and audit firm networks provide non-audit services through separate legal entities. The issue that comes to mind is whether there is or are there threats to auditor independence when they perform these services. As it is noted by Etienne et al. (2010), some proponents dispute the claim that auditor independence can be subconsciously impaired when they provide NAS as a result of a conflict of interest as most of the NAS are management related. Etienne et al. (2010) further suggested that, since most of the NAS are management related, the management will feel more comfortable letting an extended tenured auditor to undertake the tasks rather than are short tenured auditor. This is because they think they now know the auditors better and can trust them to come to their aid when they need them. It could be implied that auditors with extended audit tenures now serves two groups of persons; the management who depends on management consulting services and the audit committee or shareholder who rely on the audited financial statements for decision making (POB, 2000) . Since the auditors with extended audit tenures are duty bound to serve with loyalty to both parties, these dual loyalties create a serious appearance problem.

According to Paul et al. (2009), certain types of non-audit services concern regulators because they potentially threaten auditor independence. Due to this, the corporate collapses of Enron, WorldCom, HIH, and others heightened these concerns, and several countries moved to pass legislation to curtail or eliminate many auditor-provided non-audit services (Paul et al., 2009). Most members of the public will rather focus on independence in appearance than independence in fact; and proponents against the provision of NAS see this as very damaging to the auditor independence because instead of protecting the public, they are forming alliances with the management (Etienne et al., 2010).

As per Etienne et al. (2010), some other groups believe that auditors with extended audit tenures can provide both audit services and NAS to its clients, with proper safeguards and disclosures, and still maintain objectivity and independence. This group consider that, the provision of NAS is both for public interest and helps to enhance the effectiveness of the audit (POB, 2000). For instance, a company may need an auditor with extended audit tenure to help identify and correct control weaknesses during the audit process. This is going to benefit the public as the control system will be strengthened to better enhance the company's financial reporting process and this increases the audit effectiveness as the auditor gets to add value to the client's control system with their vast knowledge which spills back to the audit.

The NAS debate further holds that the income earned from the provision of these services can make auditors with extended audit tenures audit to be economically dependent on the audit client (Etienne et al., 2010). DeAngelo (1981) model suggests that as the economic bond between the auditors and their clients increases, the auditor independence decreases due to increase dependence on the client. This increasing dependence may reduce the auditors' willingness to challenge any misstatements of the client's financial statements thereby impairing their independence especially as they have an extended tenure.

To further strengthen the above literatures, IFAC (2004) outlines some non-audit services that auditors cannot provide to their clients. These services include:

- Management level decision making functions that may involve authorizing or exercising authority on behalf of the assurance client, determining which recommendations should be considered and reporting in a management role to those charged with governance.
- Bookkeeping services which include preparation of financial statements, payroll services, and entries recording services in the books of accounts.
- Corporate financial and other similar service like underwriting of a client's shares, consummate a transaction on behalf of the client, promoting or dealing in a client's share and committing a client to the terms of a transaction.
- Litigation support services. That is at no point should the auditor act as an advocate for the client as this will deeply jeopardize their independence.

2.2. Empirical studies

There are arguments regarding to the impacts of extended audit tenure on auditors independence and audit quality. To understand this arguments, the researcher pointed out the following empirical evidences based on their relevance or importance for this study.

Ann (2000) conducted a study on the impact of renewable long term audit mandates on audit quality. As per Ann (2000), audit quality was considered from the viewpoint of the external users of the financial statements. It was questioned whether renewable long term audit mandates have an impact on the auditor's reporting behavior and on auditor independence. The empirical analysis for this study is done on the basis of two samples taken from CDROMs containing the annual accounts of companies submitted to the Belgian National Bank over the period 1992-1996. For each year, two samples were drawn. The first sample contains financially stressed non-bankrupt large companies and the second sample contains financially non-stressed non-bankrupt large companies. The results of the study shows that long-term auditor client relationships significantly increase the likelihood of the auditor to issue an unqualified audit report or long tenure significantly reduces the auditor's willingness to qualify audit reports. Given the fact that the tenure variable is significant in the sample of financially stressed and financially non-stressed firms separately, there is little reason to believe that the result of long tenure decreasing the likelihood of an unclean audit report is confounded by the sample selection. A significant difference was also found between the auditor reporting behavior in the first years versus the last year of the audit mandate, at least for the entire sample and the subsample of financially stressed firms. Auditors are more willing to issue a clean audit report in the first two years of their official mandate than in the last year of their mandate. This could be an indication that the decision of renewal of the auditor's mandate is already taken and known to the auditor before he has issued his last audit report within his current mandate. In other words, if the auditor already knows that his mandate will not be renewed, he might be more willing to issue an `unclean' audit report if this would be appropriate. Ann (2000) recommend that, further research should analyze the impact of renewable long-term audit mandates on audit quality from the viewpoint of the management of a company. In this respect, a qualitative analysis on the basis of interviews might be promising. Considering the viewpoint of both company's management and the external users of the financial statements can lead to a more rigorous conclusion.

Another study undertook by Joseph et al. (2004) examines the relation between audit firm tenure and fraudulent financial reporting. There were 267 sample companies used to conduct this study from the year 1990 through 2001. The result of the study shows that, fraudulent financial reporting is more likely to occur in the first three years of the auditor client relationship. However, the study fail to find any evidence that fraudulent financial reporting is more likely given long auditor tenure . Finally, the results are consistent with the argument that mandatory firm rotation may have adverse effects on audit quality.

Aloke et al. (2005) undertook a study on auditor tenure and perceptions of audit quality. The study analyzed the perceptions of three primary users of audited financial statements: investors, independent rating agencies and financial analysts with the sample of 35,826 firms. As it is indicated by the study, the finding shows that audited financial statements are perceived as more reliable for firms with longer auditor tenure and the investors and information intermediaries perceive auditor tenure as improving audit quality.

James et al. (2005) undertook a study to examine the associations between the length of auditor-client relationships and restatements of financial statements for non-GAAP accounting in Lexis. James et al. (2005) identified the restatement sample from public sources including Lexis-Nexis News, Library, Lexis disclosure of other corporate events, and Form 8-Ks on Lexis, using key-word searches for restatements and for specific accounting issues and from the review of each companies listed in the General Accounting Office publication on restatements (GAO, 2002) as having announced restatements during the sample period. As per James et al. (2005), the analyze includes a sample of public companies that announced restatements between January 1995 and October 2001. The sample consists of 853 companies that announced restatements between January 1995 and October 2001, inclusive. Out of the 853 restatements announced during the sample period, 556 meet this materiality threshold. The analysis of the study find no association overall between the length of auditor client relationships and misstatements.

Auditor independence is fundamental to public confidence in financial reporting and the auditing profession. However there are main factors which may influences auditors independence. Regarding to this, Nur et al. (2005) conducted a study on the causes of losing auditor independences to provide further understanding of the factors influencing auditor independence from the perspective of commercial loan officers. Loan officers formed the sample as they are relatively sophisticated financial statement users who would understand the importance of audit report and the issues related to auditor independence. The study examines the perceptions of commercial loan officers in Malaysian owned commercial banks and a total of 86 officers responded to the self-administered questionnaire. Samples are chosen using stratified random sampling. Data were collected using the survey method. The questionnaire has been self developed by the researchers taking into consideration factors such as the level of difficulty of the questions and the length of time needed by the respondents in answering it. Out of the 240 questionnaires, 116 were received, a response rate of 48.3 per cent. However, out of the 116 questionnaires returned, only 86 are usable, producing usable replies of 35.8 per cent. These unusable replies are excluded from the analysis due to the failure of the respondents to complete certain parts of the questionnaires. The respondents were a heterogeneous group with an average age of 30.07 years. Results indicate that smaller audit firms, audit firms operating in a higher level of competitive environments, audit firms serving a given client over a longer duration, larger size of audit fees, audit firms providing managerial advisory services, and, the non-existence of an audit committee, are perceived as having a higher risk of losing independence. Audit firm size appears to be the most important factor that affects the auditor independence, followed by longer audit tenure, competition, audit committee, audit firms providing managerial advisory services and size of audit fee.

Philmore et al. (2006) conducted a study to investigate the perceptions of auditor independence (PAI) between auditors and users in Barbados. The research used a self administered quantitative survey. The sampling population identified for this study comprised several groups such as auditors, financial directors, credit managers, investment analysts, fund managers, shareholders, and government departments. A self administered questionnaire was adapted and modified from Beattie et al.'s study in the UK the sample included 66 auditors and 148 users. Factors relating to the size and closeness of Barbadian society, lengthy tenure and being a sole audit practitioner, small audit firm, provision of non-audit services (NAS) among others, were investigated. The finding shows that economic dependence of auditor on the client, the provision of NAS, high competition, small firm size, being a sole practitioner, lengthy tenure and the size and closeness of Barbadian society were found to negatively affect PAI. According to Philmore et al. (2006), Auditor independence was perceived to be enhanced by the existence of audit committees, rotation of audit partners, risks to auditor arising from poor quality, regulatory rights and requirements surrounding auditor change and an auditor's right to attend and be heard at the company's annual general meetings.

Robert et al. (2007) examine the effect of auditor tenure on audit quality for private companies in Belgium, an environment where they believe auditor tenure is more likely to have a negative effect on audit quality. The study was carried out by using a sample of stressed bankrupt companies, and stressed no bankrupt companies. To conduct this study, Robert et al. (2007) used a sample of 618 private Belgian companies for empirical analysis, evenly divided between (1) companies that are financially stressed and went bankrupt and (2) companies that are financially stressed but did not go bankrupt. The sample was developed starting with the entire population of bankrupt Belgian companies from the period 1992–1996 deemed to be large under Belgian guidelines. For companies belonging to the same affiliated group, only the parent company is included. Data was collected for the sample companies with the cooperation of the Belgian National Bank, which maintains archives of financial reports. The results indicate that auditors do not become less independent over time nor do they become better at predicting bankruptcy. In balance, the evidence for tenure either increasing or decreasing quality is weak.

Rohami et al. (2009) conducted a study to examine the relationship between audit firm tenure and auditor reporting quality in Malaysia. The study includes the sample comprises all listed non-finance distressed companies identified using a list of financial indicators under ISA 570 (revised) going concern. The data was primarily from annual reports of public listed companies in Bursa Malaysia. The year of 2002 is selected since the ISA 570 (revised) came into force from 1 January 2002. This study employs well-established going concern model of logistic regression. The findings show that audit firm tenure is positively significant relationship with auditor reporting quality. Rohami et al. (2009) noted that future research should consider other importance variables that may affect the auditor reporting quality such as non-audit services, and audit partner tenure. However, in sum, this study is in line with the recent decision by the regulators not to regulate a mandatory audit firm rotation in Malaysia. This study provides a very importance implication and as a cornerstone to the regulators and policy makers in a developing country as the issue continues to be strong interest among them in improving the auditor independence.

Diana et al. (2010) also conducted a study on the impact of auditor rotation on the audit quality in Egypt. A self- made questionnaire has been used in this paper and distributed among auditors in Egypt. The questionnaire is designed based on the Likert scale model. The questionnaire was distributed among 50 auditors who were randomly selected from two of the big four firms in Cairo, Egypt. Out of this sample, only 31 replied representing 62% response rate. In this study, the result shows that the long tenure or the long auditor client relationship is assumed to would negatively affect the audit quality by impairing the auditor independence due to increased familiarities, closeness and loyalty to the client, which in turn would impair the auditor's objectivity and professional judgment. However from the analysis of the questionnaire, it was found that the extended auditor client relationship would enhance rather than it would deteriorate the audit quality due to the increased experience with the client's business and practice. From the result it was also found that the main causes of the lack of independence problem in Egypt is that most of the companies in Egypt are closely held where the stockholders are the managers of the company.

Etienne et al. (2010) conducted a study on the impact of extended audit tenure on auditor independence in Sweden. In order to investigate the findings; the study used a sample of 1,250 qualified Swedish auditors out of 3800 qualified auditor. Etienne et al. (2010)

have chosen to make a systematic probability sample and collect primary data through a web-based questionnaire. Based on this, the questionnaires were sent to approximately 1,250 auditors by e-mail and out of this a total of 265 responses received implying a response rate of 21.2% even if 10-15 % was expectation for the survey. Although the actual response rate was higher than the expectations, the response rate is still low. The research question of this study is definitive, rather than subjective as to whether the association of extended audit tenures to auditor independence can either impair or not impair auditor independence. In the questionnaire, the study used Likert scales which are a suitable way to measure the respondents' attitudes. The responses gotten were analyzed using a quantitative method, paired samples t-test in SPSS, which compared similar situations in both short and extended audit tenures to reveal if there could be any association of auditor independence to extended audit tenures. As regards the sub-purpose, from the results, the study conclude that both extended audit tenures and short audit tenures can be a source for the emergence of threats to auditor independence with the risk even higher when auditors have short audit tenures. Though some of the threats may increase with extended audit tenures, others are not affected by the length of tenure as the results have shown.

2.3. Conclusion and knowledge gap

The examination of the review literature shows the presence of gaps on the impact of extended audit tenure on auditors independence and audit quality. The renewable long term audit mandates on audit quality was assessesed by the study of Ann (2000). However, the audit quality under the study of Ann (2000) was considered from the viewpoint of the external users of the financial statements instead of auditors. Aloke et al. (2005) under took a study to evaluate the effect of auditor tenure on audit quality. However, the study examines the perceptions of investors, independent rating agencies and financial analysts rather than auditors. James et al. (2005) on their study examine the associations between the length of auditor-client relationships and restatements of financial statements. But, the data for the analysis of this study was collected from secondary data sources rather than questioners.

Nur et al. (2005) carried out a study on the causes of losing auditors independence. The scope of the study is very wide since the presence of many factors for the loss of auditor independence. Even if the finding of Nur et al. (2005) showed auditor tenure as one cause for the loss of auditor independence, the study examines the perceptions of commercial loan officers with below 50% response rate of the questioners. Another study by Philmore et al. (2006) reveals that the study was conducted with the help of quantitative methods only and the sample was selected from auditors and users of audited financial users.

As it is mentioned earlier, the study of Robert et al. (2007) is limited only on financially stressed private companies to examine the effect of auditor tenure on audit quality. However, there was no evidence why they chose only private companies and financially stressed companies. Robert et al. (2007) also collected the data with the cooperation of the Belgian National Bank, which maintains archives of financial reports. The other study conducted by Rohami et al. (2009) reveals that, the data was primarily from annual reports of public listed companies.

Diana et al. (2010) conducted a study on the impact of auditor rotation on the audit quality in Egypt. Even if the study used self- made questionnaire which is distributed among auditors in Egypt, the questionnaire was distributed only from two of the big four firms in Cairo, Egypt. Another study conducted by Etienne et al. (2010) examine the impact of extended audit tenure on auditor independence in Sweden. However, the study of Etienne et al. (2010) carried out by the help of quantitative methods only and the study also used systematic probability sampling and collect primary data through a web-based questionnaire with low response rate.

As to the knowledge of the researcher, it can be concluded that although there have been studies on the impact of extended audit tenure on auditor independence and audit quality in other countries, in Addis Ababa there are no comprehensive studies that examine the impact of extended audit tenure on auditors independence and audit quality. There fore the current study is tried to fill the gaps which are mentioned in the above.

Chapter Three - Research Methodology

This chapter shows the research methodology, which reflects how the study is conducted. The chapter also looks at the reason why the researcher chose each of the options used in the study.

According to Catherine (2002), the research methodology is the philosophy or general principle which guides the research. The research problems, personal experiences and different philosophy of research methodology show the choice of appropriate research methods.

The main themes which is discussed under this chapter are: the rationalities of the three research approaches (qualitative, quantitative and mixed approach), choice of subject why the researcher chose the title, methods adopted under this study (mixed approach, sources of data, sampling and instrument design , data analysis and interpretations).

3.1. Research approaches: rationality

Research approach is more concerned with the way in which the researcher will collect data to answer his/her research questions and objectives. The rationality of the three research approach is given as follows.

3.1.1. Qualitative approach

A qualitative approach is used for studying the empirical world from the perspective of the subject, not the researcher. Qualitative research uses a naturalistic approach that seeks to understand phenomena in context-specific settings, such as "real world setting where the researcher does not attempt to manipulate the phenomenon of interest" (Patton, 2001, cited in Nahid, 2003). Sonia (2004) identified different reasons for the use of qualitative approach like; to understand complex phenomena that are difficult or impossible to approach or to capture quantitatively and to understand any phenomenon in its complexity.

The aim of qualitative approach is to describe certain aspects of a phenomenon, with a view to explaining the subject. Regarding to this, Catherine (2002), noted that qualitative research explores attitudes, behavior and experiences through such methods as interviews or focus groups. It attempts to get an in-depth opinion from participants. Similarly, James (2006) stated that, qualitative research explores the richness, depth, and complexity of phenomena or in other words the qualitative approach is a way to gain insights through discovering meanings by improving our comprehension of the whole.

Qualitative approach has its own strength and weakness. Regarding to the strength of this approach, Burke et al. (2004) mentioned that, the data are based on the participants' own categories of meaning; it is useful for studying a limited number of cases in depth; it is useful for describing complex phenomena; it can describe, in rich detail, phenomena as they are situated and embedded in local contexts; the researcher can study dynamic processes (i.e., documenting sequential patterns and change); data are usually collected in naturalistic settings in qualitative research. Similarly, Duffy (1986) cited in Duangtip (2009) argued that the strength of such an interactive relationship is that the researcher obtains first-hand experience providing valuable meaningful data. As the researcher and the subject spend more time together the data are more likely to be honest and valid (Bryman, 1988, cited in Duangtip, 2009). The strength of this approach employed lies in the fact that it allows flexibility to follow unexpected ideas during research and explore processes effectively and the attainment of a deeper, more valid understanding of the subject than could be achieved through a more rigid approach (Duffy, 1986, cited in Duangtip,2009). The other advantage of qualitative methods in exploratory research is that use of open-ended questions and probing gives participants the opportunity to respond in their own words (Creswell, 2009).

On the other hand the weakness of qualitative approach is mentioned by Burke et al. (2004) as knowledge produced may not generalize to other people or other settings (i.e., findings may be unique to the relatively few people included in the research study); it is difficult to make quantitative predictions; it is more difficult to test hypotheses and theories; it may have lower credibility with some administrators and commissioners of programs; it generally takes more time to collect the data when compared to quantitative research; data analysis is often time consuming; the results are more easily influenced by the researcher's personal biases and idiosyncrasies. Duangtip (2009) also pointed out the weaknesses of this approach as the possible effect of the researchers' presence on the people they are studying, the relationship between the researcher and participants may actually distort findings.

3.1.2. Quantitative approach

Duangtip (2009) noted that quantitative approach is an objective, formal systematic process in which numerical data findings are common. Quantitative approach describes, tests, and examines cause and effect relationships (Burns & Grove, 1987). It also generates statistics through the use of large-scale survey research, using methods such as questionnaires or structured interviews and this type of research reaches many more people, but the contact with those people is much quicker than it is in qualitative research (Catherine, 2002).

As it is cited from Hoepfl (1997), Denzin and Lincoln (1998) and Nahid (2003), researchers who use logical positivism or quantitative research employ experimental methods and quantitative measures to test hypothetical generalizations, and they also emphasize the measurement and analysis of causal relationships between variables.

Burke et al. (2004) mentioned the strength of quantitative approach as testing and validating already constructed theories about how (and to a lesser degree, why) phenomena occur, testing hypotheses that are constructed before the data are collected; Can generalize research findings when the data are based on random samples of sufficient size; useful for obtaining data that allow quantitative predictions to be made; allowing one to more credibly assess cause-and-effect relationships; data collection using some quantitative methods is relatively quick (e.g., telephone interviews); provides precise, quantitative, numerical data; data analysis is relatively less time consuming (using statistical software); the research results are relatively independent of the researcher (e.g., effect size, statistical significance). For reliability, quantitative research is considered more reliable than qualitative investigation. This is because a quantitative approach aims to control or eliminate extraneous variables within the internal structure of the study, and the data produced can also be assessed by standardized testing (Duffy, 1985, cited in Duangtip, 2009).

In contrast to the advantages or strengths of quantitative approach as mentioned above, Burke et al. (2004) identifies the weaknesses of quantitative approach as the researcher's theories that are used may not reflect local constituencies' understandings; the researcher may miss out on phenomena occurring because of the focus on theory or hypothesis testing rather than on theory or hypothesis generation (called the confirmation bias); knowledge produced may be too abstract and general for direct application to specific local situations, contexts and individuals. In addition to this, the absence of open ended questions is the other disadvantages of quantitative approach.

3.1.3. Mixed approach

This approach is the combination of both quantitative and qualitative approach. Regarding to this, Burke (2004) stated that, mixed methods research is the class of research where the researcher mixes or combines quantitative and qualitative research techniques, methods, approaches, concepts or language. Similarly, Julia (2005) noted that, Mixed methods research means adopting a research strategy employing more than one type of research method.

Like qualitative and quantitative approach, mixed approach also has its own advantages and disadvantage. The advantages of Mixed methods often combine homothetic and idiographic approaches in an attempt to serve the dual purposes of generalization and in-depth understanding to gain an overview of social regularities from a larger sample while understanding the other through detailed study of a smaller sample (Pat, 2002). Similarly, Burke et al. (2004) pointed out the strength of mixed approach as words, pictures, and narrative can be used to add meaning to numbers; numbers can be used to add precision to words, pictures, and narrative; it can provide quantitative and qualitative research strengths; it can answer a broader and more complete range of research questions because the researcher is not confined to a single method or approach; a researcher can use the strengths of an additional method to overcome the weaknesses in another method by using both in a research study; it can provide stronger evidence for a conclusion through convergence and corroboration of findings; it can add insights and understanding that might be missed when only a single method is used, it can be used to increase the generalizability of the results; qualitative and quantitative research used together produce more complete knowledge necessary to inform theory and practice. Furthermore, Mertens (2003) and Punch (1998) cited in William et al. (2005), who suggested that mixed methods investigations may be used to (a) better understand a research problem by converging numeric trends from quantitative data and specific details from qualitative data; (b) identify variables/constructs that may be measured subsequently through the use of existing instruments or the development of new ones and (c) obtain statistical, quantitative data and results from a sample of a population and use them to identify individuals who may expand on the results through qualitative data and results.

In addition to the above advantages, Creswell (2009) mentioned that, a mixed methods design is useful to capture the best of both quantitative and qualitative approaches. Creswell (2009) further stated that, mixed approach employs strategies of inquiry that involve collecting data either simultaneously or sequentially to best understand research problem and to get the advantages of collecting both closed-ended quantitative data and open-ended qualitative data to best understand a research problem.

In contrast to the above, mixed approach has also its own disadvantages or weaknesses. Regarding to this, Tashakkori (2003) recognizes the limitations of this approach as it may be high in cost and it may also require researchers to work in multiple teams. Similarly, Burke et al. (2004) pointed out the weaknesses of this approach as it may be difficult for a single researcher to carry out both qualitative and quantitative research, it may require a research team; researcher has to learn about multiple methods and approaches and understand how to mix them appropriately; more expensive and time consuming. The researchers are needed to be familiar with both quantitative and qualitative research is the other disadvantages of mixed approach (Creswell, 2009).

3.2. Choice of subject

The independence of any auditor is a very important aspect in their professional career as this independence upholds the stature of the profession. The general public, particularly the shareholders, put their trust in the functions of the auditors and expect them to truly and impartially express an opinion as to the fairness of the financial statements presented by the stewards. Therefore, the auditors cannot adequately perform this function if they are not seen as independent from management. This is to say that they must undertake their work independently from management and may not have an overly cordial relationship with management. The issue at stake now is whether their lengthy tenure with their clients impairs their independence; as their overstay with the client can risk them becoming too cordial with the clients thereby putting their independence into question. This will in turn make those who depend on the financial statements to consider them unreliable and it forces the researcher to conduct this study.

3.3. Methods adopted: mixed approach

Research methods are the tools where the researchers used to collect the data (Catherine (2002). Under the current study, mixed approach (the combination of both qualitative and quantitative approach) is used to provide further explanations and new insights into issues concerning the impact of extended audit tenure on auditor independence and audit quality. With regard to the various approaches explained above, it is therefore necessary to indicate that mixed approach is applied for this study. This is due to the fact that concerning to the research questions and the underlying philosophy of each research approach, in this study, the quantitative method is use predominantly. However, to have a better insight and gain a richer understanding about the research problem, the quantitative approach is supported by the qualitative approach. That is, to get the benefits of a mixed methods approach, as presented earlier, and to mitigate the bias in adopting only either quantitative or qualitative approach, it provide quantitative and qualitative research strengths, used to get the advantages of collecting both closed-ended quantitative data and open-ended qualitative data to best understand a research problem, the current study used both quantitative and qualitative research approach. Knowing how and where to get the relevant knowledge is also crucial and the use of a mixed strategy is inevitable.

3.3.1. Sources of data

Under this study, there were two sources of data collection: primary and secondary sources. The primary source of data is the collection of first hand information using questioners that appropriately suit the study based on the researcher's assumed perceptions. Just by its name, secondary data is information already which may have been processed and stored. This information came from official documented data, journals, articles, newspapers, text books and internet. The primary source used as the main empirical data for the analysis, while the secondary source used to describe theories and in the literature review.

The following section highlights the primary data collection technique used to gather data under mixed approach. Questionnaire was the main sources of evidence to conduct this study.

- **Questionnaires:** Questionnaire is a type of data gathering techniques where respondents write answers to questions posed by the researcher on a question form. A number of respondents were asked identical questions, in order to gain information that can be analyzed. The types of questioners can be open and closed ended questions. Questionnaires can save time but the response rate may be low. Under the current study, open and closed ended questions were prepared for the respondents and the researcher gathered this data in the form of cross-sectional type. The reason for the use of questioner for this study is due to the fact that the main purpose of the study is to measure the effect that an extended audit tenure has an impact on auditors' independence and audit quality based on the auditors views and because of that, the researcher chose a questionnaire method of data collection techniques. In addition to this, time constraint is other factors which forces the researcher to choose questioner types of data gathering techniques for this study.

  For close-ended questions, the respondents answer one options according to a particular format; for example, multiple-choice questions, checklist questions and rating questions. In this way the respondents does not require so much time to finish it when compared with the required time for open ended questions (Pitchaya et al., 2010). However, open-ended questions permit the respondents to have freedom to respond from their own frame of reference (Ary et al., 2009 cited in Pitchaya et al., 2010). Lake and Harper (1987) cited in Pitchaya et al. (2010) stated that "open-ended questions are useful when the researcher want to see how respondents discuss an issue or discover what is on their minds without imposing an agenda.

As mentioned above in this study a self made questioner has been used and distributed among private auditors in Addis Ababa to know their perception concerning to the impacts of extended audit tenure on auditors independence and audit quality. The closed ended questioner was designed based on Likert scale model with 5 choices; "strongly agree", "agree", " neutral", "disagree" and "strongly disagree" (see appendix). The reason why the researcher chose to use a Likert scale is because it is suitable for measuring attitudes which is enshrined in the purpose of this study. Another reason for using five point Likert scale is that earlier research (Etienne et al., 2010) which the researcher borrow much from for this study, used the same scale. This makes it possible for the researcher to base some outcomes of the questionnaires with previous research. In order to get a higher response rate, an introduction letter was sent to the respondents prior to the questionnaire wherein briefly described the purpose of the study. The questionnaire was distributed among 50 auditors from 6 private audit firms.

3.3.2. Sample and instrument design

Sampling is the process of systematically choosing a sub-set of the total population that the researchers are interested in surveying. Regarding to this Paula et al. (2001) noted that, sampling refers to drawing a sample or selecting a subset of elements from a population. The design of a sampling strategy is an important issue for a research study and it can be a powerful tool for accurately measuring opinions and characteristics of a population. The usual goal in sampling is to produce a representative sample. As it is stated by Paula et al. (2001), a perfect representative sample would be a mirror image of the population from which it was selected.

Under the current study, stratified random sampling is applied to conduct this research work. Stratified random sampling is a technique which attempts to restrict the possible samples to those which are less extreme by ensuring that all parts of the population are represented in the sample in order to increase the efficiency. In line with this, Louis et al. (2000) and Catherine (2002) stated that stratified sampling involves dividing the population into homogenous groups, each group containing subjects with similar characteristics. Similarly, Jingyu (2006) mentioned that a stratified random sample is selected by stratifying the population into disjoint strata and taking a simple random sample units from each stratum. The units sampled from each stratum are combined to form the complete sample.

Although there are other techniques for acquiring a representative sample (e.g., selecting individuals that match the population on the most important characteristics), stratified random sampling is considered to be the best method for the current study, because as it is identified by National Guide Office (NGO, 1992), under stratified random sampling units from each main group are included and may therefore be more reliably representative. Black (1999) also mentioned that, stratified random sampling can ensure that specific groups are represented, even proportionally, in the sample(s) by selecting individuals from strata list. Furthermore, Paula et al. (2001) noted that, under stratified random sampling the researcher can have more precise information inside the subpopulations about the variables of the researcher's study. These leads the researcher to choose stratified random sampling for the current study.

During the stratification process, the researcher stratified the population in different groups based on their grades. There were 52 private audit firms in the study area (Addis Ababa). These audit firms have their own grades from grade "A" up to grade "C". Based on their grades the researcher categorized these audit firms in to three groups (i.e. group 1, grade A audit firms; group 2, grade B audit firms and group 3, grade C audit firms). From this stratification the researcher selected randomly 2 audit firms from each group. Based on this, the researcher took 6 audit firms as a sample out of 52 audit firms and distributed the questionnaire for all 50 auditors of the six audit firms. A response rate of 30-40% was the researcher expectation for the survey.

The other issue is the instrument tool design used for the collection of data under this study. As it is mentioned before, the instrument tool was both open ended and close ended questions for the target participants (external auditors). This is due to the fact that, in the qualitative approach open ended questions are preferable to get further understanding about the phenomenon and close ended questions are suitable for the quantitative approach to measure definitive types of response rather than subjective as to whether extended audit tenures can either impair or not impair auditor independence and audit quality. The instrument tool is prepared in English for the target participants i.e. external auditors.

3.3.3. Data analysis and interpretations

To analyze the raw data gathered from the target participants, the researcher used SPSS. Because the researcher believe that a specialized statistics program like SPSS can provide sufficient tools for analyzing the data. Therefore, the quantitative data from the questionnaires was analyzed using simple descriptive statistics (mean, mode and median). This enabled the researchers to make comparisons between the impacts of extended and short audit tenure on auditors independence and audit quality.

Chapter Four - Data Presentation and Analysis

In this chapter, the researcher presents the results from the questionnaires and analyze them based on the results in different themes. Accordingly; the chapter presents the results and impacts of respective threats to auditor independence and audit quality individually.

As it is mentioned before, the main purpose of this study is to examine whether auditors independence and audit quality can be impaired when auditors have extended audit tenures with their clients. However, this chapter also highlights the impacts of short audit tenure on auditors independence and audit quality to see what extent the impact of extended audit tenure affects auditors independence and audit quality when it is compared with short audit tenure. To be able to fulfill this purpose, the researcher used the five threats to auditors independence and audit quality identified in the literature review for the analysis section or for this chapter.

The analysis of this chapter is categorized in to seven sub sections. Under the first section, background information of the respondents presented; which includes gender and year of experience working as an auditor. The second section consists the analysis of response rates and missing values of the respondents. Finally, the main body of this chapter; which are threats to auditors independence and audit quality are analyzed under threats to auditors independence and audit quality. These threats are self interest threats, self review threats, advocacy threats, familiarity threats and intimidation threats.

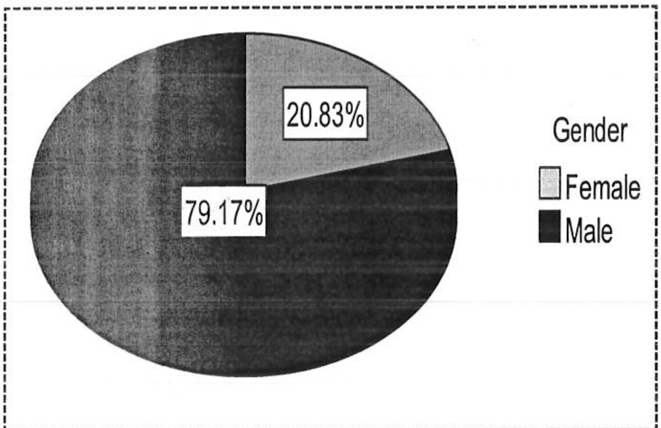
As mentioned in chapter three, under this chapter, the results which is gained from the respondents were presented and analyzed with the help of SPSS (i.e. simple descriptive statistics).

In general, the above mentioned items are briefly presented and discussed in the subsequent sections of this chapter.

4.1. Background information

There were a total of 24 respondents, of these, 19 (79.17%) were male and 5 (20.83%) were female. In general, the following figure shows the distribution of the respondent's gender.

Figure 1 : Distribution of gender

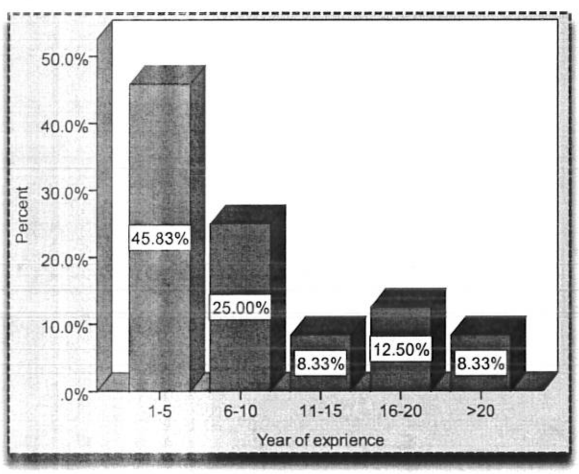


Source : Own survey

As one can see in the figure above, there is a clear overweight with male respondents. It indicates that the number of male and female respondents are not proportional instead male covers the majority of the respondents.

The other background information of the respondents is years of working as an auditor. The years of respondent's experience is shown in the figure below.

Figure 2 : Years of working as an auditor



Source: Own survey

As shown in the figure above, the distribution of years of experience that the respondents had with working in the auditing profession was not fairly spread out among the categories. Out of 24 respondents, 11 respondents (45.83% of total respondents) represents a group that covers 1 to 5 years of experience. This shows that the auditors are not much experienced. One- fourth (25%) of the respondents is found under the range of 6-10 years of experience. On the other hand, the group that is least represented is between 11-15 and > 20 years of experience which involves 2 respondents under each range with a 16.66% of the total respondents. The rest 3 respondents which represents 12.5% were under the ranges of 16-20 years of experience.

As it is indicated above, one can understand that almost half of the auditors have less than 6 years of experience working in the auditing profession. This shows that much of the respondents are not well experienced working as an auditor.

4.2. Analysis of response rates and missing values

The initial expectations for the response rate of the questionnaire was 30-40% and the researcher wanted at least 15 respondents. Based on this, the researcher distributed the questionnaire to 50 auditors and received a total of 24 responses implying a response rate of 48%. In general, the response rates of the respondents is summarized as below in the table.

Table 1 : Response rate

	frequency	Percent (%)
Total response rate	24	48
Unreachable due to out of office	18	36
No response	8	16
Total response failures	26	52
Total	50	100

Source : Own survey

As it is shown in the table above, 18 respondents could not be reached due to out of office. The most frequent reasons for this was work-related travels (field work). The rest 8 respondents were not voluntary to fill the questionnaire. This indicates that they didn't take care to give their opinion for the questionnaire.

Although the actual response rate (48%) was higher than the expectations (30.40%), the response rate is still low. One of the reasons for the low response rate might be as a result of much workload for the auditors and they do not prioritize answering to a survey. This is due to that most of the time the auditors are assigned in the field work and they may not have enough time to fill the questionnaires. This may have accounted for the low response rate.

4.3. Threats to auditor's independence and audit quality

As it is pointed out in the literature review, there are five threats which may or may not affect auditors independence and audit quality. In this chapter, each threats are analyzed under extended and short audit tenures. In order to analyze each threats, a 5-point Likert-type scale was used to measure external auditors' attitudes towards the impact of extended audit tenure on auditors independence and audit quality. The Descriptors and corresponding numerical codes are : 'Strongly Agree' [1], 'Agree' [2], 'Neutral' [3], 'Disagree' [4], and 'Strongly Disagree' [5]. Based on this, the impact of extended audit tenure on auditors independence and audit quality is analyzed under each threats in the following section.

4.3.1. Self interest threats

To measure self-interest threats, the researcher used economic dependence of the auditors on their client (questions 1-2 and 11-12). These factors are both used by Beattie et al (1999) and Etienne et al (2010) as a proxy for measuring the economic dependence or financial interest of the auditors in the client. In addition, the IFAC Handbook (2008) declare that a self-interest threats appears when the auditor has a direct financial interest or indirect material financial interest in the client company. Using these examples can help to get higher construct validity.

The median and mode score for self-interest threats in relation to short audit tenure was calculated through the variable SITshortQ1 and SITshortQ2, which represents Q1 and Q2 as shown in the appendix. In a similar way, the researcher calculated the median and mode score for self-interest threats under extended audit tenures with the variable SITextendedQ11 and SITextendedQ12; here the first variable represents Q11 and the second variable represents Q12 (see appendix). Then after, the four variables (SITshortQ1, SITshortQ2, SITextendedQ11 and SITextendedQ12) are used to compute the median and mode for self interest threats under short and extended audit tenure.

The first and eleventh questions in section two asked the respondents to give a score on how the auditors independence and audit quality is affected when the clients fees represent more than 15% of the auditor's revenue under short and extended audit tenure. The results of the respondents in connection with this issue is presented in the table below.

Table 2: Paired Sample statistics for self interest threats (SITshortQ1 &SITextendedQ11)

		SITshortQ1	SITextendedQ11
N	Valid	24	24
	Missing	0	0
Median		3.00	1.00
Mode		4	1
Percentiles	100	5.00	5.00

Source : Own survey

As presented in the table above, the median and mode score under extended audit tenure is 1 and 1 respectively. Similarly, the median and mode results for this question under short audit tenure is 3 and 4 respectively. The result indicates that the mode and median score for self-interest threats with extended audit tenure is lower with 1 for both when it is compared to short audit tenure with a mode and median of 4 and 3 respectively. The mode and median score, which is quite low, indicates that the respondents regarded to fees size as being "strongly affect" auditors independence and audit quality.

As indicated in the above table, the mode, which is 1 for SITextendedQ11 shows that the majority (58.3 %) of the respondents think that the auditors independence and audit quality is strongly affected under extended audit tenure even if the size of audit fees paid by the client for auditors is greater than 15% of the Auditor's revenue. A high percentage of respondents (29.2 %) chose scale 2, which can be translated as "agree" and 4.2 % chose scale 5 which represent strongly disagree. However 8.3 % and none of the respondents chose scale 3 and scale 4 which represents neutral and disagree respectively. This shows that almost all of the respondents think that extended audit tenure have an impact on auditors independence and audit quality even if the size of audit fee is increased for auditors. Means that the economic dependency of the auditors on their clients has impacts on the auditors independence and audit quality when the auditors are long tenured.

In contrast to the above, the mode score 4 for SITshortQ1 indicates that majority (33.3%) of the respondents choose scale 4 which represent disagree in the likret scale. High respondents i.e.20.8% and 29.2% choose scale 2 and scale 3 respectively which represents agree and neutral. However few respondents i.e. 4.2% and 12.5% choose scale 5 and scale 1 respectively which is denoted for strongly disagree and strongly agree. The result indicates that the auditors independence and audit quality is not much affected when the audit fee is greater than 15% of the auditor's revenue under short audit tenure. This shows that short duration of auditors with their client has no impact on auditors independence and audit quality when it is compared with the extended audit tenure. It implies that the size of audit fees does not bring impacts on auditors independence and audit quality under short audit tenure. However the reverse is true under long audit tenure.

The second question in section two asked the respondents to answer how the unpaid audit fees affect the auditors independence and audit quality under short and extended audit tenure. These questions are denoted by the variables SITshortQ2 and SITextendedQ12 for Q2 and Q12 respectively. The median and mode results of this variables are reflected in the following table.

Table 3 :Paired Sample statistics for self interest threats (SITshortQ2&SITextended Q12)

		SITshortQ2	SITextendedQ12
N	Valid	24	24
	Missing	0	0
Median		2.00	2.00
Mode		2	2
Percentiles	100	5.00	5.00

Source : Own survey

The mode score 2 for SITextendedQ12 indicates that above half of the respondents (54.2%) choose scale 2 which is translated to "agree". The rest respondents i.e. 33.3%, 8.3% and 4.2% choose scale 1, 3 and 5 respectively which is translated to strongly agree, neutral and strongly disagree. However non of the respondents chose scale 4 which is represented for disagree. Similarly the mode score 2 for SITshortQ2 shows that 50% of the respondents chose scale 2 which is agree in the option with the mean of 2.13. The remaining 25%, 16.7%, 4.2% and 4.2% of the respondents choose scale 1,3, 4 and 5 respectively which is translated to strongly agree, neutral, disagree and strongly disagree.

As presented in the above table, the median and mode do not deviate from each other and the score for both median and mode for short audit tenure is similar with extended audit tenure which is 2. Therefore, one can understand that unpaid audit fees which is self interest threats have an impacts on auditors independence and audit quality under short as well as extended audit tenure. It indicates that economically the auditors are dependent on their clients. As a result the auditors may not challenge any misstatements of the client's financial statements since they are dependent and may not have other financial sources to compensate the unpaid audit fees from their clients.

Generally, the results from the empirical findings relating to self-interest threats for extended audit tenures reveal an impact to auditor independence and audit quality. The median and mode shows this facts in the tables above. This shows that the auditors may not take care for their responsibility if their financial or economic interest is satisfied specially under extended audit tenure. This finding is consistent with DeAngelo (1981) and Beattie et al. (1999). DeAngelo (1981) and Beattie et al. (1999), indicate that economic dependence on the client by the auditor is seen to be a serious threat to auditor independence and audit quality. This means that when the economic dependence of the auditor increases, the auditors' willingness to challenge any misstatements of the client's financial statements is reduced.

4.3.2. Self-review threats

The factors used to measure self-review threats are the NAS (questions 3-4 and 13-14). Beattie et al. (1999) found these factors to be an important threat to the perception of auditor independence, at least on the 50-100 % or above the audit fee level. A higher level of NAS implies more involvement for the auditor with the client. The examples of self-review threats in Etienne et al. (2010) and IFAC Handbook (2008) lie on the foundation that it is hard to be critical on one owns work. Nevertheless, the researcher rely on the operational definition of self-review threats and trust it to provide with a valid measure.

As mentioned above, question number 3, 4,13 and 14 were based on the provision of other services (non-audit services) by the auditors to their client. These questions are closely connected to self-review threats in that the auditors during the audit process may have to check upon a system they either help or actively participated in structuring. Using a paired sample statistics technique, two variables (i.e. SRTshortQ3 and SRTshortQ4) are used to measure the score of self-review threats to auditor independence and audit quality when short audit tenures are involved. As mentioned above, these two variables are linked with Q3 and Q4 respectively. On the other hand , SRTextendedQ13 and SRTextendedQ14 were the other two variables which used to measure the score of self-review threats to auditor independence and audit quality when extended audit tenures are involved. Like in the case of short audit tenure, Q13 and Q14 are represented by the variables SRTextendedQ13 and SRTextendedQ14 respectively under extended audit tenure. Based on these four variables (SRTshortQ3, SRTshortQ4, SRTextendedQ13 and SRTextendedQ14), the score of median and mode for self review threats under short and extended audit tenure is shown in the next two tables.

The respondents were asked to answer how the provision of non audit services affect auditors independence and audit quality when the non audit fee is equal to or greater than 100% of audit fees under extended and short audit tenure. In connection with this the table below shows the median and mode results of the respondents.

Table 4: Paired Sample statistics for self review threats(SRTshortQ3&SRTextended Q13)

		SRTshortQ3	SRTextendedQ13
N	Valid	24	24
	Missing	0	0
Median		2.00	2.00
Mode		2	2
Percentiles	100	5.00	5.00

Source : Own survey

The mode which is 2 for SRTextendedQ13 implies that the large percentage of the respondents (54.2%) choose scale 2 which is denoted for "agree " in the five likret scale under extended audit tenure. The remaining 29.2%, 12.5% and 4.2% of the respondents choose scale 1, 3 and 5 respectively. Non of the respondents choose scale 4 which is translated to "disagree". Based on the results, it is possible to say that the provision of non audit services have an impact on auditors independence and audit quality under extended audit tenure when the value of audit fees is equal to or greater than 100% of the audit fees. From this one can understand that a higher value of NAS fees implies more involvement of the auditor with the client and it leads the independence of the auditor and the audit quality to be threatened.

The mode and median results which is 2 for SRTshortQ3 shows that 37.5% of the respondents select scale 2 which is represented for " agree". 20.8% and 20.8% of the respondents select scale 1 and scale 3 respectively. A few number of the respondents i.e. 16.7% and 4.2% choose scale 4 and scale 5 respectively. Like in the case of extended audit tenure, the provision of non audit services under short audit tenure have an impact on the auditors independence and audit quality even if the value of non audit fees is equal to or greater than 100% of the audit fees. As it is shown from the table above, additional services by the auditors to the client has a negative impact on the auditors independence and audit quality under short and long audit tenure when the NAS fees is equal to or greater than 100%. It may be the effect of the auditors involvement with their clients.

The other question in section two asked the respondents to answer how the provision of non audit services affects auditors independence and audit quality under short and extended audit tenure when the value of non audit fees is up to or equal to 25% of audit fees. The median and mood results of these question is shown in the table below.

Table 5 : Sample statistics for self review threats (SRTshortQ4 & SRTextendedQ14)

		SRTshortQ4	SRTextendedQ14
N	Valid	24	24
	Missing	0	0
Median		3.00	2.00
Mode		3	2
Percentiles	100	5.00	5.00

Source : Own survey

As it is shown from the table above, the mode and median for SRTextendedQ14 is 2; which shows that 66.7% of the respondents decide to choose scale 2 which means "agree". While the remaining 20.8% , 8.3% and 4.2% of the respondents decide to select scale 1,3 and 5 respectively. However no one is select scale 4 which denotes "disagree". The evidence shows that the provision of non audit service affects auditors independence and audit quality under extended audit tenure when the non audit fees is up to or equal to 25% of the audit fees.

On the other hand the median and mode score 3 for SRTshortQ4 indicates that 37.5% of the majority respondents choice is scale 3 which is translated in to neutral. However high percentage of the respondents i.e. 33.3% and 16.7% choose scale 4 and 2 which is disagree and agree respectively. The rest 8.3% and 4.2% of the respondents choose scale 1 and 5 respectively. Here one can understand that the provision of non audit services has no either positive or negative effect on auditors independence and audit quality under short audit tenure when the value of non audit fees is up to or equal to 25% of the audit fees. It means that when a little NAS fees are paid for short tenured auditors, there is no change on auditors independence and audit quality.

As a conclusion, the results indicate the presence of difference to the auditor independence and audit quality in situations of short and extended audit tenures when confronted with self-review threats. This is proved by their statistical results. This means that self review threats more affect auditors independence and audit quality under extended audit tenure than short audit tenure. This is because of that the auditors may highly involved in the client when they are long tenured. The result of the findings is consistent with that of Beattie et al. (1999), Lloyd (2003), Swapan (2004), Nur et al. (2005) and Etienne et al. (2010), which found that, since most of the NAS are management related, the management will feel more comfortable letting an extended tenured auditor to undertake the tasks rather than are short tenured auditor. Further more they suggest that NAS are the most common factors which affect auditors independence and audit quality.

4.3.3. Advocacy threats

The factors used to measure advocacy threats is derived from the method in Etienne et al. (2010) and the researcher used a proxy measure as an indicator of advocacy threats (questions 5-6 and 15-16). To construct these questions, the researcher rely on the examples of advocacy threats in Etienne et al. (2010) and IFAC Handbook (2008): Selling, underwriting or otherwise dealing in financial securities or shares of an assurance client and acting as an advocate for litigation cases or disputes on behalf of the client. The researcher argue that using these examples as a measure for advocacy threats may provides a valid and reliable measure.

The median and mode score for advocacy threats in the case of short audit tenure was calculated through the variables ATshortQ5 and ATshortQ6, which denotes Q5 and Q6 (see appendix). Similarly, ATextendedQ15 and ATextendedQ16 were the other two variables used to calculate the median and mode for Advocacy threats under extended audit tenures. These two variables are the reflections of Q15 and Q16 respectively. By considering these four variables (i.e. ATshortQ5, ATshortQ6, ATextendedQ15 and ATextendedQ16), the score of median and mode for advocacy threats under short and extended audit tenure is computed in the next two tables.

The respondents were asked to answer how the auditors independence and audit quality is affected under extended and short audit tenure when an auditor is acting in secret as an advocate in litigation or other disputes on behalf of a client. The results of the respondents is presented in the table below.

Table 6 : Paired sample statistics for advocacy threats (ATshortQ5 & ATextendedQ15)

		ATshortQ5	ATextendedQ15
N	Valid	24	24
	Missing	0	0
Median		2.00	2.00
Mode		1	2
Percentiles	100	5.00	5.00

Source : Own survey

As shown in the table above, the median and mode for ATextendedQ15 is 2; which implies that majority of the respondents (45.8%) decide to select scale 2. High percentage of the respondents (37.5%) also agree to select scale 1; where as 12.5%, 4.2% and non of the respondents agreed to choose scale 3, 5 and 4 respectively. Based on the result, one can understand that acting in secret as an advocate in litigation or other disputes on behalf of a client have an impact on auditors independence and audit quality under extended audit tenure. It shows that when the auditors get the chance to participate in the clients firm for any issues on behalf of the clients, the auditor's focus may not be concentrated on their main task i.e. auditing their clients financial statements.

Under the short audit tenure, the mode for ATshortQ5 is 1; which indicates that majority of the respondents (37.5%) choose scale 1. On the other hand 33.3%, 20.8%, 4.2% and 4.2% of the respondents decided to chose scale 2,3,4 and 5 respectively in the Likret scale. This result shows that acting in secret as an advocate in litigation or other disputes on behalf of a client have an impact on auditors independence and audit quality under short audit tenure. Like long audit tenure, the participation of auditor in the clients firm for any issues on behalf of the client may have impact on auditors independence and audit quality. This is because of that the auditors are influenced by other responsibilities instead of run their normal jobs.

The following table shows the median and mode results of the respondents for question number 6 and 16 as shown in the appendix. Regarding to this, the respondents were asked to answer how the auditors independence and audit quality is affected under extended and short audit tenure when an auditor recommends a close friend through a dummy to trade in shares or financial securities in a client. The result is summarized in the table below.

Table 7: Paired sample statistics for advocacy threats (ATshortQ6 & ATextendedQ16)

		ATshortQ6	ATextendedQ16
N	Valid	24	24
	Missing	0	0
Median		1.00	1.00
Mode		1	1
Percentiles	100	5.00	5.00

Source : Own survey

From the above table, the mode and median result which is 1 for ATextendedQ16 reflects that the greater number of respondents (70.8%) decision is scale 1 which is denoted for "strongly agree". One fourth (25%) and 4.2% of the respondents agreed to select scale 2 and 5 which are agree and strongly disagree respectively. Unfortunately there is no any respondents who decide to select scale 3 and 4 which are neutral and disagree respectively. This information shows that extended audit tenure have a great impact on auditors independence and audit quality when an auditor recommends a close friend through a dummy to trade in shares or financial securities in a client. Similarly, in the case of short audit tenure the median and mode which is 1 guides that the majority (58.3) response is scale 1 in the Likert scale which means "strongly agree". A high number of respondents (29.2%) also chose scale 2. In contrast to this a few respondents i.e. 4.2%, 4.2% and 4.2% chose scale 3, 4 and 5. Therefore, like extended audit tenure , an auditor recommends a close friend through a dummy to trade in shares or financial securities in a client under short audit tenure can affects auditors independence and audit quality. The data informs that auditors may not free from bias if they are assigned as an auditor in the client where the auditors are trading shares or financial securities in the client.

To sum up, there is no great difference between the impacts of short and extended audit tenure on auditors independence and audit quality when it is considered under advocacy threats. As it is shown in the above tables, the mode of extended and short audit tenure is nearest to 1. This indicates that when the auditors dealing in financial securities or shares of a client and acting as an advocate for litigation cases or disputes on behalf of the client, there will be an impact on auditors independence and audit quality not only under extended audit tenure but also under short audit tenure. In the case of extended audit tenure, it is consistent with Aloke et al (2005), found that audit quality declines with extended audit tenure because, as tenure increases, client firms have greater reporting flexibility and earnings forecast errors decline.

4.3.4. Familiarity threats

The factors used for measuring familiarity threat is derived from the method in Beattie et al. (1999) and Etienne et al. (2010). To create these questions (9-10 and 19-20), the researcher rely on the definition of familiarity threats to auditor independence and audit quality in Etienne et al. (2010) and IFAC Handbook (2008): accepting undue hospitality or gifts or other forms of preferential treatment from a client and a family member holds a position in the client.

In order to assess the impact of short and extended audit tenures on familiarity threats, four variables are used to measure the median and mode sore for familiarity threats to auditor independence and audit quality under both short and extended audit tenures. These variables are FTshortQ9, FTshortQ10, FTextendedQ19 and FTextendedQ20. The first two variables are linked with Q9 and Q10 under short audit tenure where as the last two variables are related with Q19 and Q20 under extended audit tenure. Having these four variables, the next two tables shows the median and mode score for familiarity threats under short and extended audit tenure.

In section two, the participants were requested to answer what extent auditors independence and audit quality is affected under extended and short audit tenure when a family member holds a position with a client. Based on this question, the median and mode result of the respondents is shown in the table below.

Table 8 : Sample statistics for Familiarity threats (FTshortQ9 & FTextendedQ19)

		FTshortQ9	FTextendedQ19
N	Valid	24	24
	Missing	0	0
Median		2.50	1.00
Mode		1	1
Percentiles	100	5.00	5.00

Source : Own survey

As it is indicated by the median and mode score (i.e. 1) for FTextendedQ19, scale 1 is selected by the majority of the respondents (58.3%) which implies "strongly agree". In the second place a high number of respondents (29.2%) also choose scale 2 which means "agree" in the Likret scale. However, only 8.3%, 4.2% and non of the respondents decided to choose scale 3,5 and 4 respectively. By considering this result, one may conclude that a family member who holds a position with a client have an impact on auditors independence and audit quality under extended audit tenure. This is because of that the auditor may have greater interaction with the client since the auditor is the relative of the client firms. Therefore, the auditors may fail to provide unbiased opinion.

When a family member who holds a position with a client under short audit tenure, the large number of the respondents (41.7%) as shown by the mode score (i.e. 1) they decided to select scale 1 which means "strongly agree". On the other hand 25% and 20.8% of the respondents believed to tick scale 3 and 4 in the Likret scale. A very few participants i.e. 8.3% and 4.2% choose scale 2 an 5 respectively. To some extent it is possible to say that the auditors independence and audit quality is affected under short audit tenure when a family member who holds a position with a client. Hence, the auditors independence may not that much affected if the auditors are not long tenured even if the auditors are family members of the client. Means that in the short period of time, the auditors may not have great interaction with their clients even if the clients are the auditor's family members.

The other question under familiarity threats for the respondents was to answer how auditors independence and audit quality can be affected under extended and short audit tenure when an auditor accepts undue hospitality or gifts from a client. The median and mode result is shown in the table below.

Table 9 : Paired sample statistics for Familiarity threats (FTshortQ10 & FTextendedQ20)

		FTshortQ10	FTextendedQ20
N	Valid	24	24
	Missing	0	0
Median		2.00	1.50
Mode		1	1
Percentiles	100	5.00	5.00

Source : Own survey

The mode score (i.e.1) for FTextendedQ20 indicates that half of the respondents (50%) believed to tick scale 1 or strongly agree. The rest 45.8% and 4.2% of the respondents decided to choose scale 2 and scale 5 respectively; where as there is no respondents who choose scale 3 and 4. This means that an auditor who accepts undue hospitality or gifts from a client have an impact on auditors independence and audit quality under extended audit tenure. It shows that the auditors opinion towards their audit work can easily influenced by their clients when the auditors have given pre audit fees.

Again in the case of short audit tenure, the mode score is 1; which implies that one-third of the respondents (33.3%) tick scale 1 in the Likret scale. One-fourth (25%) and 20.8% of the respondents are categorized under scale 2 and 4 respectively. The remaining 16.7%

and 4.2% of the respondents decided to select scale 3 and 5 respectively. The consequence of the data shows that auditors independence and audit quality can be affected under short audit tenure even if the auditor accepts undue hospitality or gifts from a client. This implies that the gifts provided by the client to the auditor can enforce the auditor to stop challenge any misstatements of the client's financial statements.

In general, the result shows that auditors independence and audit quality is affected by familiarity threats when the auditors have extended audit tenure. However, familiarity threats also have impacts on auditors independence and audit quality under short audit tenure even if the degree of its impact is less than in the case of extended audit tenure as it is shown by their median in the above tables. This is in line with the results Fearnley et al. (2005) suggesting that a close friend or relative being involved in the management of a client have an impact on auditors independence and audit quality.

4.3.5. Intimidation threats

Finally the respondents were asked what their attitudes towards intimidation threats were and in order to measure intimidation threats to auditor independence and audit quality (questions 7-8 and 17-18), the researcher used the factor audit risk, which is used by Beattie et al. (1999) and Etienne et al. (2010) to measure the effect of audit risk on perceived auditors independence. The researcher also use the definition of intimidation threats in Etienne et al. (2010) and IFAC Handbook (2008): i.e. intimidation threats can emerge if the auditor is threatened with litigation or threatened with dismissal or replacement over a disagreement.

The median and mode score for intimidation threats to auditor independence and audit quality was calculated through the variable ITshortQ7 and ITshortQ8 under short audit tenure. Q7 and Q8 are the factors for the variable ITshortQ7 and ITshortQ8 respectively. In the same way, the median and mode for intimidation threats in extended audit tenures was computed with the variables of ITextendedQ17 and ITextendedQ18. Q17 and Q18 were the factors for the variables ITextendedQ17 and ITextendedQ18 respectively. Based on these four variables the median and mode score for intimidation threat is shown the next two tables.

In connection with intimidation threats the respondents were requested to give their answer how the auditors independence and audit quality can be affected under extended and short audit tenure when an auditor is threatened with disciplinary action by a regulatory body of a client. The result of the respondent is shown in the table below.

Table 10: Paired sample statistics for Intimidation threats (ITshortQ7 & ITextendedQ17)

		ITshortQ7	ITextendedQ17
N	Valid	24	24
	Missing	0	0
Median		3.00	2.00
Mode		2	2
Percentiles	100	5.00	5.00

Source : Own survey

As presented in the table above, the mode score 2 for ITextendedQ17 guides that 29.2% of the respondents decided to select scale 2 which is "agree". Similarly, scale 1 and 3 are selected by a high number of respondents (25%) each and the rest 12.5% and 8.3% of the respondents were choose scale 4 and 5 respectively. As a result the auditors independence and audit quality can be affected under extended audit tenure when an auditor is threatened with disciplinary action by a regulatory body of a client. It shows that the auditors discipline is the base for their independence as well as for the quality of the audit. However, their independence will be lost if they are considered with a poor discipline by their clients.

The above table also shows the mode score (i.e. 2) for ITshortQ7; which informs that a greater number of respondents (29.2%) decided to tick scale 2. A high number of respondents i.e. 25% and 20.8% also tick scale 4 and 3 respectively. In contrast to this a few respondents i.e. 16.7% and 8.3% were choose scale 1 and 5 respectively. Based on the result, one can understand that the auditors independence and audit quality can be affected under short audit tenure when an auditor is threatened with disciplinary action by a regulatory body of a client. However, the degree of its impact is less than the long audit tenure when it is compared with the short audit tenure. The result indicates that what ever the auditor tenure exists the audit quality can not be considered as the result of unbiased opinion of the auditors when the auditors are threatened with disciplinary action by the regulatory body of the clients.

Furthermore, the respondents were also asked to answer how a client that threatens the auditor to replace with another auditor as a result of a dispute between them can affect the auditors independence and audit quality under extended and short audit tenure. The result of the respondents is shown under short as well as extended audit tenure in the table below.

Table 11 : Paired sample statistics for Intimidation threats (ITshortQ8 & ITextendedQ18)

		ITshortQ8	ITextendedQ18
N	Valid	24	24
	Missing	0	0
Median		3.00	2.00
Mode		4	1
Percentiles	100	5.00	5.00

Source : Own survey

The mode, which is 1 shows that the majority (41.7%) of the respondents think that ITextendedQ18 strongly affect auditors independence and audit quality. A large number of respondents (33.3%) also tick scale 2 which can be translated as "agree". However, only few respondents i.e. 12.5%, 8.3% and 4.2% were agreed to select scale 3, 5 and 4 respectively. This implies that a client that threatens the auditor to replace with another auditor as a result of a dispute between them have an impact on auditors independence and audit quality under extended audit tenure. The auditors may not perform freely their jobs if they are in conflict or disagreement with their clients. Because their mind may forced to remind or think the created disagreement at each movement rather than conducting free audit process.

In contrast to the above, under the short audit tenure, the mode , which is 4 indicates that the greater number of respondents (29.2%) select scale 4 which can be translated as "disagree". Scale 1 and 3 were selected by 41.6% of the respondents equally. The remaining 16.7% and 12.5% of the respondents were decided to select scale 5 and 2 respectively. Based on this one can understand that a client that threatens the auditor to replace with another auditor as a result of a dispute between them have no much impact on auditors independence and audit quality under short audit tenure. This implies that disagreement or disputes may not be happened between the auditors and the clients since they have no much interaction between them, because of short tenure of the auditors.

In general, as it can be seen from the empirical results above , intimidation threat have a great impact on auditors independence and audit quality when the auditors have extended audit tenure. Although the impact is high in the case of extended audit tenure as shown in the tables above by their median and mode, intimidation threats also affect auditors independence and audit quality under short audit tenure. The result is consistent with Fearnley et al. (2005), found that intimidation threat is the most frequent threat where intimidation is accompanied by the underlying threat from management of removal of the auditor and where directors may attempt to overcome the auditor's objections by employing aggressive behavior without any underlying threat of removal from office.

4.4. Analysis of open ended questions

In the questionnaire, under section three, open ended questions were prepared for the respondents. In an analytical perspective, the open ended questions are useful in interpreting the results in a fruitful manner. This is because of that open-ended questions are useful when the researcher want to see how respondents discuss an issue or discover what is on their minds without imposing an agenda (Lake and Harper,1987 cited in Pitchaya et al., 2010). Although there was no a comprehensive overview of responses for the questionnaire from the respondents, the researcher tried to see and analyses what the majorities of the respondents agreed for the open ended questions. This is due to the fact that many unique responses from the respondents may make it impossible for the researcher to account for each and every one of them.

In the first place under the open ended questions, the respondents were asked to answer regarding to the relationship or its direction between the auditor tenure and auditor independence. As it is mentioned above, there was no comprehensive overview of responses for this questions. Some respondents agreed that there is a positive relationship between the extended audit tenure and auditor independence. On the other hand, few respondents were agreed that there is no relation between audit tenure and auditor independence. However, majority of the respondents said that there is a negative relationship between extended audit tenure and auditor independence. The result indicates that, when the auditors serve their clients for a long period of time, their independence can be affected and it leads the audit quality will be impaired. This is because of that, when the auditors are extended tenured, the auditors may have a relationship with the management which may affect their job. As a result the independence of the auditors may be influenced by the management. This is in line with Rohami (2004) argued that the longer the auditors audit their clients, the larger that lead to such close relationship between the audit firms and clients. This long relationship between the auditor and the clients will impair the independence of the auditors.

The respondents were also asked to answer either the auditor reporting behavior in the first two years of the auditor's mandate differ from the last year of the auditor's mandate or not. A few respondents said that the auditors reporting behavior is the same in the first two years and in the last year of the auditors mandate. Few respondents suggested that, auditors tenure or mandate have no impact on auditors independence and audit quality. On the other hand, to answer this question, some respondents agreed that the auditors reporting behavior in the first two years differ from the last years of the auditors tenure. As the respondents, there were two reasons for this difference. The first reason is the auditors are not well experienced and would make more mistakes than the experienced auditors in the first two years where as in the last years, the auditors have better understanding or experience to conduct audit. The second reason is the auditors have greater interaction with the clients in the case of the last two years where as the opposite is true in the case of the first two years. This implies that both too short and extended audit tenure have impacts on auditors independence and audit quality. It is consistent with Joseph et al. (2004) argued that, audit quality could be lower given short auditor tenure because of the auditor's lack of knowledge and lower given long auditor tenure because of the auditor's lack of objectivity, both compared with medium auditor tenure.

Finally, the respondents were asked to answer related with the kind of threats that can be happened on auditors independence and audit quality when the auditors serve its client for a long period of time. According to the respondents, the auditors can provide additional services for their client beyond auditing if auditors are extended tenured. This shows the presence of self review threats i.e. non audit services. This is in line with Lloyd (2003) and Swapan (2004) found that non audit services is the most common factor that apparently affects auditor independence and audit quality. In addition to this, the respondents also suggested that if the auditors have no any other sources of revenue and if the clients give the auditor high audit fees, it can affects the auditors independence. Therefore, it creates self interest threats and it is consistent with DeAngelo (1981) and Beattie et al. (1999) found that economic dependence on the client by the auditor is seen to be a serious threat to auditor independence and audit quality. Furthermore, the respondents believe that when the auditors serve their clients for a long period of time, the auditor can get the chance to act in secret as an advocate in litigation or other disputes on behalf of a client and this leads advocacy threats to auditors independence and audit quality.

Chapter Five - Conclusions and Recommendations

The aim of this chapter is to give a general summary about the whole study and make broad conclusions drawn from the findings of the results. Finally, based on the findings the researcher put some recommendations under this chapter.

5.1. Conclusions

This paper aimed to assess the impacts of extended audit tenure on auditors independence and audit quality. However, the study also highlights the impacts of short audit tenure on auditors independence and audit quality to see what extent the impact of extended audit tenure affects auditors independence and audit quality when it is compared with short audit tenure. Auditors independence and audit quality was considered from the viewpoint of the external auditors. It was questioned whether extended audit tenure have an impact on the auditor's independence and audit quality. Then, the researcher decided to use the threats to auditor independence in order to appraise the impairment of auditor independence and audit quality considering extended audit tenures as a source of the increase likelihood of more threats to independence.

In order to investigate the findings; the researcher used a sample of six audit firms which includes a total of 50 auditors in Addis Ababa. The researcher used stratified random sampling technique and collected primary data through questionnaire. The responses gotten were analyzed using a quantitative and qualitative approach with the help of SPSS. Having this, the researcher analyzed the perceptions of external auditors based on how extended audit tenure affects auditors independence and audit quality. The long tenure or as referred to in the paper as the extended audit tenure, is assumed would negatively affect the audit quality by impairing the auditor independence, due to increased familiarity, closeness and loyalty to the client, which in turn would impair the auditor's objectivity and professional judgments. Similarly, the results also suggest that long-term auditor client relationships have an impact on auditors independence and audit quality. In other words, long audit tenure greatly reduces the auditors independence and audit quality when it is compared with the short audit tenure.

Even though the results showed that there is an impact on auditors independence and audit quality when they have extended audit tenures and faced with the five threats (i.e. self interest threat, self review threats, advocacy threats, familiarity threats and intimidation threats) to auditor independence and audit quality ; it did not provide the opportunity to firmly conclude, on the basis of the main purpose that the auditor independence and audit quality is impaired when they have extended audit tenures. As regards the sub-purpose, from the results, the researcher observed that both extended audit tenures and short audit tenures can be a source for the emergence of threats to auditor independence and audit quality with the risk even higher when auditors have extended audit tenures.

5.2. Recommendations

The area under study is an important subject not only to the auditors themselves but also other users of audit reports. Regarding to this, in the introductory chapter the researcher argued that from a practical perspective, the auditor independence is the interest of many different stakeholders on which they may get benefit from a quality audit judging from the objectivity of the auditors that arises from their independence and it benefit the auditor as it increases their reputation which may also result to an increase in the reputation of the general professional auditing bodies in which the auditors belong. However, as shown in the results, the protection of the auditors independence is not seems to work quite effectively. As a result, the implications of the findings from this study leads the researcher to give the following recommendations.

Firstly, the applications of mandatory auditor rotation as a solution for the lack of auditor independence to sustain auditor's independence, to promote the audit quality and to enhance the competition in the audit market.

Second, as mentioned in an earlier chapter, when there are safeguards to threats to independence, it may not necessarily guarantee that the auditor independence is free from the damage of threats. These safeguards will require that the auditors strictly follow them to ensure that their independence which is their core value is unperturbed. Therefore, the implications of the findings shows that there is a need to develop alternative measures to safeguard auditors' independence and proper implementation of the safeguards to protect auditor independence and audit quality.

Thirdly, the result from the study indicates that both extended and short audit tenure have impacts on auditors independence and audit quality even if the impact is worst in the case of extended audit tenure. This shows that the audit tenure should be not too short and not too extended.

Finally, establishing a country-level quality assurance program is an international good practice. A quality assurance program checks the auditors' work at both partner and firm level, and ensures that auditors conduct their duties with outmost professional diligence. However, as it is mentioned by World bank (2007), not only Addis Ababa but also Ethiopia does not have a quality assurance program for auditors. Therefore, to ensure that audit firms and auditors have effective quality control arrangements, a mechanism of a quality assurance program for auditors must be in place. However such a review mechanism does not exist in Ethiopia.

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Appendices

Addis Ababa University

School of Business and Public Administration

Department of Accounting and Finance

The purpose of this questionnaire is to gather relevant data that will be used in undertaking a study on the topic " The impact of extended audit tenure on auditors independence and audit quality in Addis Ababa" as a partial fulfillments of the requirements for the Masters of Accounting and Finance .

The major objective of the study is to explore the impact of extended audit tenure on auditors independence and audit quality in Addis Ababa. Accordingly, this questionnaire is designed to collect data on the perceptions that you have towards the impacts of extended audit tenure on auditors independence and audit quality. Through your participation I hope to understand your perception related with the impact of extended audit tenure on auditors independence and audit quality. 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 levelheaded knowledge regarding the aforesaid 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.

Thank you for your kind cooperation in advance!

Amsalu Gelaneh

Section One : Background information

Instruction : Put (X) sign on the box of your choice

1. Your gender? Male ☐ Female ☐
2. How many years have you worked as an auditor?

   ☐ 1-5 years

   ☐ 6-10 years

   ☐ 11-15 years

   ☐ 16-20 years

   ☐ >20 years

Section Two: Closed ended questions

Instruction : Encircle on the choice of your answer.

To what extent do you think that the situations described below can affect auditors Independence and audit quality?

1. An auditor has had a client for less than 1 year. The client fees represents more than 15% of the Auditor's revenue.

   [1]. Strongly agree [2]. Agree [3]. Neutral [4]. Disagree [5]. Strongly disagree
2. A client that an auditor has had for less than 1 year has unpaid audit fees.

   [1]. Strongly agree [2]. Agree [3]. Neutral [4]. Disagree [5]. Strongly disagree
3. An auditor has had a client for less than 1 year; the auditor also provides non audit services to the client. The value of the non-audit fees is equal to or greater than 100% of the audit fees.

   [1]. Strongly agree [2]. Agree [3]. Neutral [4]. Disagree [5]. Strongly disagree
4. An auditor has had a client in less than 1 year; the auditor also provides non-audit services to the client. The value of the non-audit fees is up to or equal to 25% of the audit fees.

   [1]. Strongly agree [2]. Agree [3]. Neutral [4]. Disagree [5]. Strongly disagree

5. An auditor is acting in secret as an advocate in litigation or other disputes on behalf of a client that he had in less than 1 year.

   [1]. Strongly agree [2]. Agree [3]. Neutral [4]. Disagree [5]. Strongly disagree

6. An auditor recommends a close friend through a dummy to trade in shares or financial securities in a client that the auditor had in less than 1 year.

   [1]. Strongly agree [2]. Agree [3]. Neutral [4]. Disagree [5]. Strongly disagree

7. An auditor is threatened with disciplinary action by a regulatory body of a client he has had in less than 1 year.

   [1]. Strongly agree [2]. Agree [3]. Neutral [4]. Disagree [5]. Strongly disagree

8. A client that an auditor had in less than 1 year threatens to replace the auditor with another auditor as a result of a dispute between them.

   [1]. Strongly agree [2]. Agree [3]. Neutral [4]. Disagree [5]. Strongly disagree

9. A family member holds a position with a client that an auditor had in less than 1 year.

   [1]. Strongly agree [2]. Agree [3]. Neutral [4]. Disagree [5]. Strongly disagree

10. An auditor accepts undue hospitality or gifts from a client he had in less than 1 year.

    [1]. Strongly agree [2]. Agree [3]. Neutral [4]. Disagree [5]. Strongly disagree

11. An auditor has had a client for more than 3 years. The client fees represent more than 15% of the Auditor revenue.

    [1]. Strongly agree [2]. Agree [3]. Neutral [4]. Disagree [5]. Strongly disagree

12. A client that an auditor has had for more than 3 years has unpaid audit fees.

    [1]. Strongly agree [2]. Agree [3]. Neutral [4]. Disagree [5]. Strongly disagree

13. An auditor has had a client for more than 3 years; his firm also provides non audit services to the client. The value of the non-audit fees is equal to or greater than 100% of the audit fees.

    [1]. Strongly agree [2]. Agree [3]. Neutral [4]. Disagree [5]. Strongly disagree

14. An auditor has had a client for more than 3 years; the auditor also provides non audit services to the client. The value of the non-audit fees is up to or equal 25% of the audit fees.

    [1]. Strongly agree [2]. Agree [3]. Neutral [4]. Disagree [5]. Strongly disagree

15. An auditor is acting in secret as an advocate in litigation or other disputes on behalf of a client that he had for more than 3 years.

[1]. Strongly agree [2]. Agree [3]. Neutral [4]. Disagree [5]. Strongly disagree

16. An auditor recommends a close friend through a dummy to trade in shares or financial securities in a client that the auditor had for more than 3 years.

    [1]. Strongly agree [2]. Agree [3]. Neutral [4]. Disagree [5]. Strongly disagree

17. An auditor is threatened with disciplinary action by a regulatory body of a client he has had for more than 3 years.

    [1]. Strongly agree [2]. Agree [3]. Neutral [4]. Disagree [5]. Strongly disagree

18. A client that an auditor had for more than 3 years threatens to replace the auditor with another auditor as a result of a dispute between them.

    [1]. Strongly agree [2]. Agree [3]. Neutral [4]. Disagree [5]. Strongly disagree

19. A family member holds a position with a client that an auditor had for more than 3 years.

    [1]. Strongly agree [2]. Agree [3]. Neutral [4]. Disagree [5]. Strongly disagree

20. An auditor accepts undue hospitality or gifts from a client he had for more than 3 years.

    [1]. Strongly agree [2]. Agree [3]. Neutral [4]. Disagree [5]. Strongly disagree

Section Three: Open ended questions

Instruction : Give your opinions on the spaces provided

21. What kind of relationship (i.e. its direction) exists between the auditor tenure (long & short duration) and auditor independence?---
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22. Are auditors which have a long relationship with their client less willing to issue the correct audit reports when it is compared to auditors with a shorter tenure/duration?------- Why?--
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---.
23. Does the auditor reporting behavior in the first two years of the auditor's mandate differ from the last year of the auditor's mandate?------- If yes, why?--------------------------------
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---.
24. To what extent the auditors are independent when they audit their client for more than 3 years and when they audit their client less than 1 year?---
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25. What kind of threats can be happened on auditors independence and audit quality when the auditors serve its client for a long period of time?--
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Section Four: Percentage indicating from "strongly agree up to strongly disagree" regarding factors which influence auditors' independence and audit quality.

Factors	Strongly agree	Agree	Neutral	Disagree	Strongly disagree
SITshortQ1	12.5	20.8	29.2	33.3	4.2
SITshortQ2	25.0	50.0	16.7	4.2	4.2
SRTshortQ3	20.8	37.5	20.8	16.7	4.2
SRTshortQ4	8.3	16.7	37.5	33.3	4.2
ATshortQ5	37.5	33.3	20.8	4.2	4.2
ATshortQ6	58.3	29.2	4.2	4.2	4.2
ITshortQ7	16.7	29.2	20.8	25.0	8.3
ITshortQ8	20.8	12.5	20.8	29.2	16.7
FTshortQ9	41.7	8.3	25.0	20.8	4.2
FTshortQ10	33.3	20.8	16.7	25.0	4.2
SITextendedQ11	58.3	29.2	8.3	-	4.2
SITextendedQ12	33.3	54.2	8.3	-	4.2
SRTextendedQ13	29.2	54.2	12.5	-	4.2
SRTextendedQ14	20.8	66.7	8.3	-	4.2
ATextendedQ15	37.5	45.8	12.5	-	4.2
ATextendedQ16	70.8	25.0	-	-	4.2
ITextendedQ17	25.0	29.2	25.0	8.3	12.5
ITextendedQ18	41.7	33.3	12.5	4.2	8.3
FTextendedQ19	58.3	29.2	8.3	-	4.2
FTextendedQ20	50.0	45.8	-	-	4.2