



**COLLEGE OF BUSINESS AND ECONOMICS
DEPARTMENT OF ACCOUNTING AND FINANCE
MSC Program in Accounting and Auditing**

**Factors Affecting Audit Fees in Private
Commercial Banking Industries: In Ethiopia**

By

Getachew Lechu Kistana

February, 2016

Addis Ababa, Ethiopia

Factors Affecting Audit Fees in Private Commercial Banking Industries: In Ethiopia

Getachew Lechu Kistana

A Research project paper submitted to the Department of Accounting and Finance College of Business and Economics

Presented in Partial Fulfillment of the Requirements for the **Degree of Master of Science in Accounting and Auditing**

Addis Ababa University

Addis Ababa, Ethiopia

February, 2016

DECLARATION

I hereby declare that this work entitled “*Factors Affecting Audit Fees in Private Commercial Banking Industries: In Ethiopia*” is my own work and that, to the best of my knowledge and belief, it contains no material previously published or written by another person nor material which has been accepted for the award of any other degree or diploma of the university or other institute of higher learning, except where due acknowledgment has been made in the text.

Getachew Lechu

Candidate’s Name

Signature & date

Advisor’s Approval

This Research Project paper has been submitted for examination with my approval as a University advisor.

Asmare Emire (Dr)

Advisor’s Name

Signature & date

Addis Ababa University
College of Business and Economics
MSC Program

This is to certify that the Research Project Paper prepared by *Getachew Lechu Kistana*, entitled “**Factors Affecting Audit Fees in Private Commercial Banking Industries: In Ethiopia**” is submitted in partial fulfillment of the requirements for the *degree of Master of Science in Accounting and Auditing* complies with the regulations of the University and meets the accepted standards with respect to originality and quality.

Approval of Board of Examiners

Abebew kassie (PHD)

Internal Examiner

Signature & Date

External Examiner

Signature & Date

Chair of Department or Graduate Program Coordinator

Acknowledgments

Above all my sincere and loving thanks go to Jesus Christ, Almighty and Everlasting God, and who bestowed upon me knowledge and capacity that is needed for my entire life including for the achievement of this program. A special word of thanks goes to my research advisor Dr. Asmare Emire (Dean of College of Business and Economics at AAU), for sharing his knowledge and expertise with me; to guide and advice enabled me to made this research project paper possible. I would like to also appreciate the Office of Oromia Auditor General for sponsorship, and I am indebted to thank my friend Dr. Fanta Tesgera, private consultant and lecturer who helped me in guiding and reviewing the paper. I also want to extend my special and heartfelt gratitude to Mr. Waktole Dadi (V/Dean of Public Service College Of Oromia, reform researcher and lecturer of Economics in different Universities), the one who helped me for getting SPSS software analysis and reviewing the paper to get its meaning. I also want to extend my special thanks to my brother Mr. Amente Mechalu (D/General Audit; the Office of Oromia General Audit), for his help in reviewing the paper and supporting in all matters. Mr. Zergaw Chemedda who encouraged me at any time also deserves my appreciation. I am also grateful to Dr. Abebaw Kassie and Dr. Zenegnaw Abiye, lecturers at AAU, FBE those who showed me the road on I run it and gave me all the encouragement. Most of all, I appreciate my family; my father Lechu Kistana, Kenboni, Gelane and Gete who were determined enough to be along with me at any time and are respectful to my study. Finally, I would thank all participants of the study, and to all other persons who had contributed to the study in one or another including 13 private bank managers of my study.

Acronyms

ABLL	Abnormal Loan Loss Provision
ACCA	Association of Chartered Certified Accountants
AwIB	Awash international Bank S.C
AICPA	American Institute of Certified Public Accountants
ATM	Automatic Teller Machine
AC	Audit Committee
ASC	Audit Service Corporation
BeIB	Berhan International Bank
Bof Abs	Bank of Abyssinia S.C
BuIB	Buna International Bank S.C
BHC	Bank Holding Companies
BOA	Bank of Abyssinia
BOD	Board of Directors
CAMELS	Capital adequacy, Asset quality, management efficiency, Earning Quality, Liquidity and Sensitivity to market
CPA	Certified Public Accountants
CoBO	Cooperative Bank of Oromia S.C
DB	Dashen Bank
EU	European Union
GAAP	General Accepted Accounting Principles (GAAP)
GDP	Gross Domestic Product
FHD	Finance head director
IFAC	International Federation of Accountants
IFRS	Internal Financial Reporting Standards
ISA	International Standard on Auditing
LLP	Loan Loss Provisions
NAS	Non Audit Service
NBE	National Bank of Ethiopia
ISA	International Standard on Auditing
SEC	Securities and Exchange Commission
IAD	Internal audit director
IADH	Internal audit division head
ICD	Internal controller director

ICDH	Internal controller division head
IMF	International Monetary Fund
LiIb	Lion International Bank S.C
NiIB	Nib International Bank S.C
OFAG	Office of the Federal Auditor General
OIB	Oromia International Bank S.C
ROSC	Reports on Observance of Standards and Codes
SME	Small and medium enterprises
SPSS	Statistical package for social sciences
UnB	United Bank S.C
VIF	Variance Inflation Factor
WegB	Wegagen Bank S.C
ZemB	Zemen Bank S.C

Abstract

The main purpose of this study is to investigate factors affecting audit fees in private commercial banking industries. This investigation is focused on 13 private commercial banking industries using purposively sampling technique and collected primary data of 113 respondents out of 117 that were expected to represent population. The board of directors, audit committees, internal controllers, internal auditors and the finance directors of the selected private commercial banks are the sources for the required data to the researcher through the questionnaires administered and self-collected. In addition, used the secondary data to analysis the bank size (total assets) verse audit costs from annual audited financial statements of 5 years from (2010/11 to 2014/15) of those private banks. The findings from regression and correlation analysis of the pooled data at 10% level of significance result revealed that all board characteristics, audit committee characteristics, audit quality, audit firm size , audit risk and bank size are found to be the major factors influencing the variation in audit fees in the Ethiopian commercial banking industries. Typically, board characteristics, audit committee characteristics and in turn audit qualities are inversely connected with audit fee. In addition, the audit risks, audit complexity, audit firm size and bank size directly affects audit fees. Therefore, private commercial banking industries thus better focus on factors that deemed to have significant effect with audit fees; being it results to audit quality assurance which is nearsighted by government and shareholder as well by the concerned bodies.

Key words: *Audit fees, board of directors, audit committee, audit complexity, bank size, audit firm size, audit risk and audit quality, Ethiopian private commercial banking industry Correlation and regression analysis.*

Contents	Pages
Acknowledgments.....	i
Table of Contents.....	Error! Bookmark not defined.
List of Tables	viii
CHAPTER ONE.....	1
1.0. Introduction.....	1
1.1. Background of the Study.....	1
1.2 Statement of the Problem	3
1.3 Objectives of the study	6
1.3.1 General Objective	6
1.3.2. The Specific Objectives of the Study	6
1.4 Research Questions	6
1.5 Research Hypotheses.....	7
1.6 Significance of the Study	7
1.7 Scope and Limitation of the Study.....	9
1.7.1 Scope of the Study.....	9
1.7.2. Limitation of the Study.....	9
1.8. Operational Definitions	9
1.9. Organization of the Study.....	11
CHAPTER TWO.....	13
2.0. LITERATURE REVIEW.....	13
2.1. Introduction	13
2.2 Theoretical Review	13
2.3 Theory of Audit Pricing	13
2.4 Audit Fees	14
2.5. Factors Affecting Audit Fees in Private commercial Banking Industries.....	16
2.5.1 Board Characteristics.....	17
2.5.2 Audit Committee Characteristics.....	17
2.5.3 Audit Complexity (Business Complexity)	19
2.5.4 Bank size (Client size).....	21
2.5.5 Audit Firm Size	23
2.5.6 Audit Risk.....	25
2.5.7 Audit Quality	29
2.6 Empirical Review	33
2.6.1 Audit Fee Studies in Non-financial Companies.....	33

2.6.2 Empirical Studies on Bank Audit Fees	36
2.7. Researchable Gaps from the Theoretical and Empirical Review.....	37
2.8. The Conceptual Framework of the Study.....	39
2.8.1. Research Hypothesis Development	40
CHAPTER THREE	45
3.0 RESEARCH DESIGN AND METHOD	45
Introduction.....	45
3.1. Research Design.....	45
3.1.1 Research Approach.....	45
3.1.2 Research Method	46
3.1.3 Research Strategies.....	46
3.1.4. Data Sources and Collection Method	46
3.1.4.1 Sources of Data.....	46
3.1.4.2 Data Collection Technique	47
3.1.4.3 Research Instruments.....	47
3.2. Subject of the Study	48
3.2.1 Source of Study Population	48
3.2.2 Target Population	48
3.2.3 Study Units	48
3.2.4 Inclusion Criteria	48
3.2.5 Exclusion Criteria.....	48
3.2.6 Sampling.....	48
3.2.6.1 Sampling Frame.....	49
3.2.6.2 Sample Size	49
3.2.7 Data Analysis Methods and Techniques	50
3.3. Variable	52
3.3.1 Dependent Variable	52
3.3.2 Independent Variable.....	52
3.4 Ethical Consideration	53
CHAPTER FOUR: RESULTS AND DISCUSSION	54
4.0 Introduction.....	54
4.1. Demographic Characteristics of the Sample	54
4.1.1. Sex.....	54
4.1.2. Experience.....	55
4.1.3 Educational Profile.....	56
4.2. Evaluation and Analysis of each of the Factors	58
4.2.1. Board Characteristics	58

4.2.2. Audit Committee Characteristics	59
4.2.3. Audit Complexity.....	60
4.2.4. Audit Risk	61
4.2.5. Audit Firms Size	62
4.2.6. Audit Quality	63
4.3 Analysis and Evaluation of the Sub-dimensions of Explanatory Variables as a whole.....	64
4.4 Correlation and Regression Analysis	65
4.4.1 Correlation Analysis Results to Factors Affecting of Audit Fee.....	65
4.4.2 Regression Results for the Major Factors of Audit Fee	67
4.5 Analysis of Bank Size	70
CHAPTER FIVE: CONCLUSION AND RECOMMENDATION	73
5.1. Introduction	73
5.2. Conclusion of the Results.....	73
5.3. Recommendation.....	74
5.4. Direction for Future Research	75
References.....	76
Appendixes	

List of Tables

	Pages
Table 3.1 Sample taken from each Private commercial Banking Industry	48
Table 4.1 Respondents by gender	54
Table 4.2 Respondents by work experience.....	55
Table 4.3 Respondent's Educational Profiles	56
Table 4.4 Board Characteristics.....	57
Table 4. 5 Audit Committee Characteristics	58
Table 4. 6 Audit complexly.....	59
Table 4.7 Audit risk.....	60
Table 4.8 Audit Firm Size.....	61
Table 4.9 Audit Quality	62
Table 4.10 Standardized Coefficient, t-test and Sig. values of sub-explanatory variables....	63
Table 4.11 Degree of correlation	65
Table 4.12 Regression result for the factors of audit fees.....	68
Table 14.13 Analysis of bank size	70

List of Figures

Figure 2.1 The conceptual frame work of Research Hypotheses and Variable.....	38
--	----

CHAPTER ONE

1.0. Introduction

1.1. Background of the Study

Audit fees mean all charges that the companies pay to the external auditors against the audit services and non-audit services, (e.g. management advisory and consultants). Auditing fees consist mainly of the wages and benefits of office and field personnel, travel costs, and other costs necessary to the audit and related support activities. The fees equal the estimated cost of staff time and the actual cost of travel for those activities, plus margin of profit. In their discussion of Kinney and Libby, (2002) suggested that the threat to auditor independence could be as strong when the audit fee is large. Several studies that have empirically examined factors that affecting audit fee; Francis and Simon, (1987) assume that audit services are quality-differentiated and that in a competitive market, quality differences are reflected in fees. However, since audit fees have a number of factors, they are a noisy proxy for quality. A previous study which examines whether, in an Australian setting, the existence of an audit committee, audit committee characteristics and the use of internal audit are associated with a higher level of audit fees concludes that a higher audit fee implies higher audit quality Francis, (2009). Several authors argued that managers and entrepreneurs are willing to pay higher audit fees to receive what are perceived to be higher to affect audit fee (Husam Al-Khaddash et.al, 2013).

The factors those affecting audit fees have been an attention-grabbing theme for audit researchers, and a plenty of audit studies were conducted to investigate factors believed to have an influence on audit fees in industrial companies of private commercial banking in Ethiopia. Unlike other industries, banking firms are characterized by the different nature of their operation and greater scrutiny from regulatory bodies. Audit fee investigators (Simunic 1980 and Fields et al. 2004) suggest that audit fees for every company should be a function of client size, business complexities and client business risk. Nevertheless, the audit fees studies for private commercial banking industries left unexamined for two key reasons: first, most of the measurement variables for hazard and complications used in other industries is not suitable for private banks. For example, leverage and quick/current ratio measures used in other industries cannot properly

capture the risk and complexities involved with private commercial banking industries. Secondly, the presence of watchful regulation cast its effect in the audit service in either of the two ways. On one hand tight regulation of banks may induce auditors to plan their audit in less intensive manner and charge lower audit fees (Boo and Sharma 2008). On the other hand, it also places a higher litigation risk on the auditor because both regulators and owners may bring court action in case of audit failure (Fields et al. 2004; Boo and Sharma 2008).

In view of these basic differences in banks operation and operating environment, most audit fee studies exclude banking industries firms (Simunic 1980; Palmrose 1986; Francis and Simon 1987, Gerrard et al. 1994; O'Keefe et al. 1994; Ireland and Lennox 2002; Gonthier-Besacier and Schatt 2007; Thinggaard and Kiertzner 2008; Caneghem 2010 and Lawrence et al., 2011).

Whereas, few recent studies model bank audit fees in terms of factors that are considered most important to regulatory bodies and find interesting results (Fields et al. 2004; Boo and Sharma 2008; Ettredge et al. 2011; Doogar et al. 2012; Wui 2012; Schneider and Tran 2013).

The Ethiopian audit market environment has unique features unlike the audit market in other developed as well as developing countries. So, in the country some points mention out as follows:

- the audit market has two sub markets i.e. the external audit of state owned enterprises and the market for private audit firms authorized by Office of Federal Auditor General (OFAG) until 2014 but now a days they are authorized and registered by Ethiopian Accounting & Auditing Board of Financial Reporting Services to audit business organizations as the mandate is given by a law of Proclamation for Financial Reporting of Ethiopia (No. 847/2014).
- the audit market is characterized by stiff competition generated by the bidding system to obtain audit clients among auditors.
- for a long period of time the international Big auditors have no presence in the country.
- there is no strong professional body in charge of regulating the accounting and auditing profession and consistent rules applicable in discharging professional responsibilities (World Bank 2007).

This feature of the audit market is likely to raise many concerns on the external audit practice in the country. World Bank (2007) reported that most of the external auditors in Ethiopia complain audit fees in the country are very low. It is indicated that the thin audit market and the stiff competition among audit firms lowered the audit fees in the country (World Bank 2007 and Mihret 2011). At this point, it is imperative to question what factors affect the audit fees charged by external auditors in the audit of Ethiopian private banking industries. The extant literature revealed that audit fee is a complex issue (Simunic, 1980) and connected to auditor independence and quality concerns. It has also been found that the recent accounting scandals in the west were associated with higher audit and non-audit fees, which actually motivate auditors to compromise their independence. Therefore, given the lack of strong professional body and standards coupled with lower audit fee rates in Ethiopia may lower the audit quality as well.

Auditing of companies in the regulated industries is associated with a higher litigation risk exposure in case of audit failures. To avoid such a costly litigation, it is argued that private commercial bank auditors of Ethiopia should take in to account factors that are most important to regulators in their audit fee purpose to better align with the interest of regulators. It is known that most countries of the world, be it developing or developed, bank regulators use CAMELS (Capital adequacy, Asset quality, management efficiency, Earning Quality, Liquidity and Sensitivity to market) for their off-site surveillance mechanism including Ethiopia. In light of this, bank audit fee studies model audit fees around these CAMELS ratios (Fields et al 2004; Ettredge et al. 2011). Whether private commercial banking industries of auditors in Ethiopia consider these factors or not, still remains an open question.

This study intends to describe factors that affect audit fees. Those considered factors are BOD characteristics , Audit committee characteristics , audit complexity, bank size, audit firm size, audit risk, and audit quality was identified in prior bank audit fee studies also holds for Ethiopian private commercial banking industries as well. The study as well as examines whether private commercial banking industry auditors consider factors important to the regulatory bodies.

1.2 Statement of the Problem

As the research conducted by (Ghosh et al. 2006, Dart 2009) shows that the collapse of high profile giant companies at the down of the century in the west (Enron, WorldCom) raised

significant criticism on the auditing profession as cited in (Tamrat Afesha, 2014). This is mainly due to the fact that auditors were associated in many of the cases. It was revealed that auditors drive higher non-audit fees and abnormally higher audit fees which motivate them to lose their independence as cited in (Tamrat Afesha, 2014). The recent banking crisis also reignited a similar concern on the auditing profession. It has been exposed that many banks lacked transparency and reported profits that were based on under-secured and rather reckless lending (Deloitte, 2012). From the last banking crisis the most underscored accusations on the auditors are: did not take appropriate actions in response to fraudulent misstatements and allowed companies to violate GAAP; issued inappropriate opinions on securitizations and overall insolvency; and used inadequate audit processes as cited in Tamrat Afesha, 2014. Developing economies are not exceptional from large corporate failures; for instance the corporate failures in the Nigerian financial sector in the early 1990s brought auditors into sharp focus and caused the public to question the role of accountants and auditors (Akinpelu et al, 2013).

Nevertheless the significance of private commercial banking industries to the economy, accounting researchers have done little worldwide to investigate the various factors that affect the private commercial banking industries and their auditors especially regarding the factors that affect fees of audit engagement (Fields et al. 2004). The growing Ethiopian private commercial banking industries also play a major role in the economy. For instance, in the year 2006 the Ethiopian private commercial banking industries total assets to the country GDP accounted for about 21.85% (Ncube, 2007). Although, the private commercial banking industry projected a tremendous growth over the years, the accounting and auditing practice remain at its infant stage with several problematic features. It is undisputable fact that the private commercial Banking industry provides potential market for external auditors operating in Ethiopia.

This characteristic of the audit market may have a significant inference on audit fees and the factors that affects it. Strong professional body and applicable rules are important components to ensure a standard quality audit by embracing those factors. Further the absence of big international audit firms, which are assumed to provide a better control audit over the factors, limit the audit service to local auditors only. Apart from these unique features, World Bank (2007) reported that Ethiopia does not have a quality assurance and professional security insurance program for auditors and the country has not yet experienced litigation on financial

reporting. This may indicate that the factors concern given to the audit service is relatively weak and may serve as a loophole for auditors to reduce audit procedures in their engagement while being competitive in the thin audit market. Client importance and fee dependence regarded as reason for auditors to compromise their independence and those factors. Given such intense competition along with low fee levels and the lower concern for factors those affect audit fees it would be reasonable to expect such threats to arise in Ethiopian context.

Additional, in Ethiopia private commercial banking industries also operate under supervision of National Bank of Ethiopia (NBE). The existence of closer regulatory scrutiny may also have a significant impact on the works of external auditors and the audit fee they charge to bank clients. On the one hand the watchful regulation may motivate auditors to plan less intensive audit and charge lower audit fees (Boo and Sharma 2008). While on the other hand it also exposes auditors to a higher litigation risk for the fact that both the regulatory body and shareholders may bring court action to the auditor if the auditor fails to provide fair opinion. To this relationship, Fields et al., (2004) argued that it is in the interest of many different parties that private commercial banking industries auditors should emphasis factors that are important to regulators. Whether authorized external auditors in Ethiopia fee their audit service considering the factors salient to the regulatory body is still an open question.

As the review of different literature suggests that the audit fee structure is complex and connected to auditor independence and audit quality issues (Simunac, 1980). Economic theory indicates that, when an auditor derives a high proportion of revenue from a particular client creates economic bonds on the auditor and causes the auditor to be financially reliant on the client, which can cause the auditor to lose objectivity (DeAngelo, 1981). In an effort to resolve this complex issue regulators, researchers and professional bodies has given much emphasis and a plenty of audit fee studies has been conducted.

Nonetheless, it is unfortunate that no single study conducted to the best of the researcher knowledge, in audit fees and factors affecting it in Ethiopian private commercial banking industries. Let alone Ethiopia, which had challenging accounting and auditing practice, countries with advanced practices couldn't stop their high profile companies from falling. Moreover, taking in to account the significance of banks to the economy, their financial transparency has a

paramount importance to various stakeholders. Therefore, given such a unique audit environment characterized by stiff competition, regulatory laxities in the accounting profession, and lower audit value concern afforded in the country, it is authoritative to investigate the factors that affects audit fees in the Ethiopian private commercial banking industries environment.

1.3 Objectives of the Study

1.3.1 General Objective

The major objective of the study was to assess those factors affecting audit fees in Ethiopian private commercial banking industries.

1.3.2. The Specific Objectives of the Study

The specific objectives of the study are as follows:

- To discuss circumstances that the board of director characteristics, the audit committee characteristics, the audit complexity, the audit firm size, the audit risk and the audit quality that affects audit fees in Ethiopian private commercial banking industries.
- To analysis the bank size using total assets of each private bank from annual audited financial statements with reference to yearly audit fee.
- Centered on factors that are unique to affect the private commercial banking industry and found to significantly influence on audit fees in prior studies; the study assesses the factors that authorized external auditors consider in pricing their audit service for private commercial banking industries in Ethiopia.

1.4 Research Questions

The main research problem was broken down into sub-problems stated as research questions, which guided the study. Attempts were made in the course of the research to resolve the following questions which were raised:

1. In what circumstance the Board Characteristics affect audit fee?
2. In what circumstance audit committee characteristics affect audit fees?

3. How bank size affects audit fees?
4. In what circumstance audit complexity affect audit fees?
5. In what circumstance audit risk affect audit fees?
6. In what circumstance audit firm size affect audit fee?
7. How audit quality affects audit fees?

1.5 Research Hypotheses

The null hypotheses stated below, were tested in order to provide answers to the research questions mentioned. The research develops basic seven hypotheses based on previous scholars' studies in order to answer the research questions. These hypotheses are presented as follows (H1-H7):

H1: Board Characteristics have a positive and significant relationship with audit fees

H2: Audit Committee characteristics have a positive and significant relationship with audit fees

H3: Banks size has a positive and significant relationship with audit fees

H4: Audit complexity has a positive and significant relationship with audit fees.

H5: Auditor firm size has a positive and significant relationship with audit fees.

H6: Audit risk has positive and significant relationship with audit fees.

H7: Audit quality has positive and significant relationship with audit fees.

1.6 Significance of the Study

The main reason for this study is that researchers have not paid enough attention to this subject in the service sector of private commercial banking industries in Ethiopia; due to infancy of the industry in the country. Most of the studies previously focused on manufacturing sector not on

financial service sectors. Therefore, this study has shown the expected empirical evidence on those factors affecting audit fees in private commercial banking industries in Ethiopia.

As far as the researcher knowledge is concerned, this study was a pioneer in Ethiopia regarding to private commercial banking industries as a subject matter factors affecting audit fees. Consequently the study would have a significant value for various stakeholders, the government law and policy makers of the country. Furthermore, many parties would benefit from the results that were emerged from the outcomes of the study and the major of these parties are:

Authorized Audit Firms: The study provides significant values in giving an insight for external auditor firms and sectors in the private commercial banking industries as to how audit firms decide the audit fees for their clients.

Management: This paper provides an insight whether the economic bond (measured through abnormal audit fee) lead to the lower audit quality (proxied by the extent of earning management) between auditors and private commercial banking industries. This study contributes to the extant knowledge base because, it can add to scanty works on factors of audit fees in the banking industries globally and also give an insight to pricing of audit in financial industry from developing nation context because previous studies used data from US, Europe and other Asian countries (Swanson, 2008).

Government: interested in knowing which companies operate successfully or failed to take the necessary measures to and check how banks are contributing to the development of financial sector and to the development of the country by producing reasonable assurance audit report disclose to the interest parties.

Investors: interested in such studies in order to protect their investment, and directing it to the best investment.

This research does have significant role to play in shading light on how to better understand about audit fees and factors affecting their direct and indirect impact on the private commercial banking industries those rendering services. The researcher also contributes that this study can potentially serve as a stepping stone for further research in the area.

1.7 Scope and Limitation of the Study

1.7.1 Scope of the Study

This study is confined to examine factors that affect audit fees in 13 Ethiopian private commercial banking industries. The scope of the study was delimited to private commercial banking industries since finance and time limitation to cover all private and government commercial banks by the researcher. That was the reason why that the researcher selected only those private commercial banking industries. Since external audit is highly required for private commercial banking industries as a monitoring mechanism from both BOD and regulatory bodies for seek of shareholders and economy of the country and audit fee data in other industries is not publicly available and difficult to accesses as well as, most of the variables used in this study are strange to the private commercial banking industry because of their dissimilar nature of operation in the country.

1.7.2. Limitation of the Study

The results of the study may suffer from some limitations. First, the model adopted in this study has been developed in the context of developed countries though, the study tried to contextualize in the country context; it may not well explain Ethiopian audit practice. Second, for the reason that for some items of data could not collected through questionnaires; so they collected from annual audited financial statement of all selected private commercial banking industries and the study used calculations to best proxy those items for example (bank size ratio). This may induce some biases on the reported result.

1.8. Operational Definitions

Auditing: is a systematic process of objectively obtaining and evaluating evidence regarding assertions about economic actions and events to ascertain the degree of correspondence between those assertions and established criteria and communicating the results to interested users.

The Audit Committee: is a committee composed of independent, non-executive directors charged with oversight functions of ensuring responsible Corporate Governance, a reliable financial reporting process, an effective internal control structure, a credible audit function, an informed whistleblower complaint process and an appropriate code of business ethics with the

purpose of creating long-term shareholder value while protecting the interests of other stakeholders (Rezaee, 2009).

Auditee Complexity: is a difficulty in determining a proper presentation of complex transactions, information, and processing systems. It also is used as a simple synonym of complicated, of something hard to grasp, difficult to understand, challenging to unravel and too varied and large to simply make sense of.

Audit fee: as the fees paid for annual audits and reviews of financial statements for the most recent fiscal year (Securities and Exchange Commission Code, (2003)). It also defined as the sums payable/paid to the auditor, for the audit services offered to the auditee (Chersan et al., 2012).

Audit Quality: is as the market-assessed joint probability that an auditor will discover an error in the client's account and report the error to the third parties, as conducted by DeAngelo, (1981).

Audit risk: is defined as „the risk that the auditor expresses an inappropriate audit opinion when the financial statements are materially misstated. Audit risk is a function of the risks of material misstatement and detection risk“. Hence, audit risk is made up of two components – risks of material misstatement and detection risk. It is also the degree of the risk involved in the audit work that is with materiality has to be regarded in factors affecting audit fee in the audit work.

Auditir Firm size: is the size of audit firm that is an important factor in the provision of audit services.

The board of directors: is considered as the highest-level of control mechanism in an organization because they possess the ultimate power to review the decisions that are made by the top management and ensure that the institution has adequate systems of internal controls. It means any member of the board of directors of a bank, by whatever title he may be referred to;

Contingency fees: are fees that calculated on a predetermined basis relating to the outcome or result of a transaction or the result of the work performed (OFAG, 2009).

External auditing: is often called independent auditing because it is done by certified public accountants that who are independent of the organization being audited.

Internal Control: It refers to the group or a set of security measures which contribute to the control of an enterprise. It insures the protection and safeguards the patrimony and the quality of the information. On the other hand, it is the application instructions of direction and favoring the improvement of performance. (Barrett, 2002)

An external auditor : is the one who conducts the audit of a private bank's financial statements to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, thereby enabling the auditor to express an opinion on whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework, and to report on the financial statements, and communicate as required by internationally accepted auditing standards, in accordance with the auditor's findings.

Private Commercial banking industry: is the financial institution industry in Ethiopia which is licensed by national bank of the country to undergone business activities relating to financial activities.

Financial Audits: These audits review accounting and financial transactions to determine if commitments, authorizations, and receipt and disbursement of funds are properly and accurate recorded and reported. This type of audit also determines if there are sufficient controls over cash and other assets and that adequate process controls exist over the acquisition and use of existing

Reasonable Assurance: is a relative term whose content depends upon the circumstances that is less than absolute assurance has the objective of reducing an assurance engagement risk to an acceptably low level in the circumstances of the engagement as the basis for a positive form of expression of the practioner's conclusion resources.

1.9. Organization of the Study

In addressing the research objectives, this research project paper was structured into the following chapters: that is in addition to the preliminary page, this research paper consists of five chapters. The first chapter with its sub topics was introductory parts incorporated the introduction, statement of the problem, research objectives, research hypotheses, significant of conducting the study, scope and limitation of the study, and the methodologies used to conduct

this study. The second chapter describes the detail review of related literatures with regard to the audit fees and those independent variables which affect the audit fees and the third chapter expresses the information regarding the research design and sampling techniques used to conduct the research. The fourth chapter is the analysis, discussions and presentation part of the research findings and finally, the last chapter describe about the conclusions and recommendations of the research study followed by the references and appendixes.

CHAPTER TWO

2.0. LITERATURE REVIEW

2.1. Introduction

The first chapter introduced the problem to be investigated in this study along with purpose and research hypothesis. In order to put the study within the context of the existing literature, the subsequent section of this chapter present the review of both theoretical and empirical studies related to factors affecting audit fee in the private commercial banking industries of Ethiopia.

2.2 Theoretical Review

Audit fee is the amount paid to the client firm auditor for the annual audit service of financial statements. Audit pricing is a complex issue that takes in to account various clients and auditor attributes. At the heart of pricing the audit service auditors should consider the quality of their service for the fact that various stakeholders rely on the audited financial statements for various decision and failure to account for such issues may lead to severe litigation in the advent of audit failure. The probability to discover error depends on the auditor ability, experience and auditor audit technology while the probability to report lies on the auditor independence.

The extant literature identified various auditor client relationships which potentially impacted the audit quality and auditor independence. Especially, the following accounting scandals in the west auditing profession are highly analyzed by researchers. Among others NAS, abnormal high audit fees, audit tenure and auditor size is found to impact audit quality and independence. The first section present the theories related to audit pricing, audit fees, audit quality and independence issues. In the second section, literatures related to factors that regulate audit fees are reviewed in a considerable detail.

2.3 Theory of Audit Pricing

Before the theoretical discussion of factors affecting audit fees, it is necessary to take in to account demand and supply side of the audit service itself. The demand for audit service arises from company owners, outside investors, company managers, governments and general public

for their various decisions. But there exist agency conflict and information asymmetry issues which paradoxically complicate the audit service. For example, manager's manipulating short-term earnings at the expense of long-term performance in order to receive a bonus. Outside investors also need information which truly represents the company performance to make investment decisions. However, external auditors are hired by company managers not by owners or outside investors. As a business it is obvious that both the audit firm and the client company have the same goal, i.e. maximizing profit Klein, A., (2002).

To maximize a profit, it is clear that audit firms have to gain more customers and minimize audit procedures. It means in certain cases they may compromise with client's managers. As a result, audit independence may be impaired. However, it simultaneously means auditors face the risk of litigation and being revoked their audit practice (like Andersen's case in Enron scandal). This fact involves that auditing firms have to consider watchfully loss and profit to decide their audit fees.

According to Diamant, (2000) there are four types of audit contract regulated in legal documents and presented in practice: fixed price, contingent fee, benefit in kind and hourly billing rate. The nature of audit services points out that auditors should satisfy not only managers but also investors. Meanwhile, the interests of managers and investors are so different, even antagonistic. Admitting the fact that contingent fees impair auditor's independence, many regulatory bodies prohibit receiving contingent fees by accounting firms (SEC, 2004, OFAG, 2009).

2.4 Audit Fees

Audit fee defined as cost of conducting audit to express an opinion there on about the conformity of financial statements with generally accepted accounting principles (GAAP). In the similar context, Audit fees mean all charges that the companies pay to the external auditors against the audit services and non-audit services, e.g. management advisory and consultants. Auditing fees consist mainly of the wages and benefits of office and field personnel, travel costs, and other costs necessary to the audit and related support activities. The fees equal the estimated cost of staff time and the actual cost of travel for those activities, plus margin of profit. In their discussion of Kinney and Libby, (2002) suggested that the threat to auditor independence could be as strong when the audit fee is large.

Moreover, as a response of agency contract (DeAngelo, 1981 and Watts & Zimmerman, 1990) stated the audit of financial statement as a cost-effective contract between the management and shareholders.

Meanwhile, according to the rules of ethics of public accountant's compartment, the fee amount may vary depending on the risk assignment, the complexity of services provided, level of expertise required to perform such services, the related cost structure CPA firm and other professional considerations.

In this regard, Code of Ethics for Professional Accountants (IFAC, 2010) provides that "when entering into negotiations regarding professional services, a professional accountant in public practice may quote whatever fee is deemed appropriate" (Section 240). In the same manner, the Ethiopian Code of Ethics for Professional Accountants (OFAG, 2009, p 47) stated that "It is in the best interests of both the client and the professional accountant that the bases on which fees are computed".

However, the code requires billing arrangements to be clearly defined in writing, before the commencement of the engagement to help in avoiding misunderstandings with respect to fees. Nevertheless all the three code of ethics for professional ethics for accountants i.e. (OFAG 2009), (AICPA, 2009) and (IFAC, 2010) remind the threats that may arise with regard to the fundamental ethical standards i.e. independence, objectivity and professionalism, when different level of fee levels are billed. It should be noted that if an auditor charges a lower fee than another auditor, this is not unethical, if the audit is carried out at an analogous quality level.

External auditor plays a significant role in providing assurance to all the shareholders that the financial statements are free from misstatements and voluntarily mistakes. This assurance may be affected if the auditors are not performing independently. The dependency of auditors on its client financially may lead to violation of auditor's independence (Larcker and Richardson, 2004). Regarding the independence of auditor, (DeAngelo, 1981 and Watts & Zimmerman, 1983) provided that auditor must not only detect errors and frauds, but must be independent (report appropriate). This may cause the unwillingness of auditor to detect errors and frauds in financial statements even though he/she knows about it.

As the research conducted by Jensen and Meckling, (1976) considered non-audit service (or consulting) services by audit firm as a key issue towards the auditor's independence. In contrast, study of (Antle et al., 2006) provided that the availability of prior knowledge about the client company's system make it easy about provision of services.

Moreover, study of Hay et al. (2006) highlighted that the factors affecting audit fees. In this study, characteristics of various companies as mentioned by Francis (1984) are taken to propose that audit fee depends on company size, governance practices and audit firm size. Hence, from the point of the above views of various scholars literature reviewed, one can summarize as:

Audit Fee = f(Board Characteristics, Audit committee, Audit complexity, Bank size, Audit Firm Size, Audit risk, Audit Quality).

2.5. Factors Affecting Audit Fees in Private commercial Banking Industries

Like the suppliers of other professional services auditors take into account both the cost of delivering audit services and the quality of audit services when pricing their services. Consistent with this view, Simunic (1980) was the first to develop an extensive model of audit fees. In examining the competitiveness of the audit market, he hypothesized and found factors relating to auditee size, auditee complexity, auditee asset composition, auditee industry, auditee risk and financial distress, auditor's tenure and auditor type (Big 8/6/5 vs. non-Big 8/6/5) to be associated with audit fees. Simunic's study has initiated a large stream of research replicating and extending his work. Besides assessing the competitiveness of the audit market (Francis, 1984) these studies have investigated a multitude of issues, such as auditor size effects, for instance; (Palmrose 1986; Francis and Simon, 1987), pricing initial audit engagements e.g. (Craswell and Francis 1999), the provision of non-audit services.

Although the studies' findings are mixed with respect to some of these issues, in general the audit fee model is fairly robust across time periods, countries and sample composition, and a number of results are consistent across the majority of audit fee studies. For instance, auditee size, auditee complexity, auditee asset composition and auditee financial distress are all positively associated with audit fees. Furthermore, Big 8/6/5 auditees pay significantly higher fees than do non-Big 8/6/5 auditees.

As mentioned above, theories of audit fee determination have been found in previous studies. In this section the study present factors which have been empirically proven to have strong factors that affect audit fees. Like any other service, audit remuneration depends on the demander - Auditee and the supplier – auditor attributes. Thus, the theoretical underpinnings from both audit client and auditor perspective are discussed in this section. The most important factors attributable to the client/Auditee in causing variation in audit fees include BOD, audit committee, audit complexity, bank size (client size), audit firm size, audit risk, and audit quality. Whereas, audit firm size, reputation and competition in the audit market has been the most important factors identified in prior studies from the auditor perspective.

2.5.1 Board Characteristics

The BOD is statutorily appointed by the shareholders to represent and protect their interests and represent the highest decision making body for the firm. It is responsible for the strategic stance of the organization. It is expected to set the broad objectives, vision and mission of the organization and ensure their achievement. This is realized through providing oversight on the management. Fama and Jensen (1983) suggested that the BOD ratify management decisions and monitor their performance and that they also undertake decision management and decision control functions.

As the study conducted by Christopher Ike Ogbechie, (2012) that the board of corporate governance characterized by different proxies such as board composition(board independence); and external auditors“ fee, board size, CEO Duality (board leadership), board diversity, board human capital, board effectiveness, board processes(board cohesiveness, decision-making and operations), board effectiveness, nominating committee succession committee, remuneration committee.

2.5.2 Audit Committee Characteristics

As the study conducted by different scholars the Audit Committee is defined as the existence of a sub-committee of the main board comprised mostly of non- executive or independent directors with responsibility for oversight of auditing activities (Cadbury Committee, 1992).

The Sarbanes-Oxley Act (SOX) section 205(a) defines the Audit Committee as: “A committee (or equivalent body) established by and amongst the board of directors of an issuer for the

purpose of overseeing the accounting and financial reporting processes of the issuer and audits of the financial statements of the issuer.” This definition of the Audit Committee is quite comprehensive, in the sense that it underscores the expected responsibilities of the Audit Committee not only in the context of the shareholders but also in the context of a bigger picture that includes all other stakeholders.

Audit Committees are enhance public confidence in the corporate system with regard to their transparency and adequacy in reporting and a reassurance of sufficient safeguards against fraudulent reporting and creative accounting (Rezaee et al, 1992). It is also anticipated that the Audit Committee safeguard the relationship among many governance organs within the firm as well as external organs. And also the Audit Committee is crucially important in enhancing the relationship between the external auditor and management not only during the course of their duties but also in cases of disputes between them (Rezaee, 2009).

The Audit Committee enhances the relationship between the external auditor and the internal audit function as well as this is achieved through regular review of the activities of both organs and by determining the extent and scope of their work as well as by reviewing the audit process and making informed modifications (Fama and Jensen, 1983; Rezaee, 2009).

Audit Committees are set up to enhance communications between management and auditors and to provide further assurance regarding firms internal control procedures and especially their roles in respect of financial oversight on management and the Audit Committee of the board has the primary responsibility of ensuring auditing and reporting quality in the corporation (Johnstone et al, 2001).

In the review there is more recent data, that researchers tests the relationship between Audit Committee diligence proxied by meeting frequency and external auditors fees and perceived auditor independence proxied by the extent of economic bonding between the auditor and the auditee. The demand-based directors seek differentially higher audit quality. Such greater assurance provided by the external auditor necessarily requires additional audit work which is reflected in higher audit fees (Carcello et al., 2002; Abbott et al. 2003).

On the other indicator, the audit risk standpoint recommends a negative relationship between effective audit committees and audit fees. Clients with more effective audit committees provide greater vigilant (watchful) oversight of the internal controls and the financial reporting process (Klein, 2002). Consequently, auditors may evaluate lower audit risk for BHC with more effective audit committees and reduce the extent of audit effort and lower fees (Tsui et al., 2001).

The audit committee has a particular role, acting independent of executive management to ensure that the interests of the shareholders are properly protected in relation to risk management, internal control and financial reporting. There is a need for a clear overview of the company's risk and control framework which will allow the audit committee to monitor and evaluate the effectiveness of the company's internal control, risk management and reporting.

One of the biggest risks the audit committee faces today is the risk of not seeing the threats in front of them until they are at the door. (Audit and Risk Committees, News from EU Legislation and Best Practice, Green paper, 2014).

2.5.3 Audit Complexity (Business Complexity)

As audit complexity increases, the auditor would need to spend more audit hours and allocate higher level of expertise to the engagement, thus resulting in higher audit fees. The three proxies for audit complexity are the number of subsidiaries, the proportion of foreign revenue and the number of business segments. As consistent with prior researches number of subsidiaries: increasing in the number of subsidiaries then audit fees because of increased complexity (Craswell and Francis, 1999). And Proportion of foreign revenue is another measure audit complexity commonly used in prior studies and the number of business segments used as a proxy for audit complexity Consistent with DeFond et al. (2002).

Prior researchers (O'Keefe et al., 1994; Ahmad et al., 2006; Naser et al., 2007; Gonthier-Besacier and Schatt 2007; Thinggaard and Kiertzner 2008; El-Gammal 2012) documented empirical results indicating that audit fees are significantly influenced by the level of the audit client complexity while (Al-Harshani 2008) didn't find such a significant relationship. Client business complexities usually considered in audit fee research on the ground that companies having complexity in their operation (e.g. multinational companies, subsidiaries in different locations,

nature of their assets, nature of transactions etc.) require more audit effort of time and the audit fee for such companies is also expected to increase accordingly.

Thinggaard and Kiertzner (2008, p. 147) categorized client business complexity as follows:

- **Complexity of substance:** complexity in relation to the verifiability of financial statement items (typically inherent risks) by an auditor. The risks are associated with factors such as the nature of transactions, the accounting criteria for recognition and measurement, and the degree of necessary professional judgment regarding the potential importance of the outcome of future events,
- **Technical (formal) complexity:** Complexity in relation to the presentation of financial statements after all questions of recognition and measurement has been dealt with. This component is often approximated by group complexity (number of subsidiaries, number of associated companies, and proportion of foreign assets).

With regard to the first category it is presumable that certain financial statement items present potentially risk for the auditor. In line with this view researchers usually use receivables and inventories as a proxy for financial statement items for which it is often difficult to obtain sufficient and appropriate audit evidence about whether they are free from material misstatement (Simunic 1980; Thinggaard and Kiertzner2008). Auditing such accounts usually involve „harder to review“ transactions which require confirmation and observation. Further, the valuation of these items is a complex task, requiring a forecast of future events. Therefore, the auditor is required to exert higher audit effort and longer audit hours for such accounts which in turn results in higher audit fee.

The second category (Technical complexity) has received more emphasis in prior audit fee studies. Simunic (1980) pointed out that decentralization and diversification of the audit client company increase the number of decision centers in an organization whose activities need to be monitored and hence increase complexity and also suggested that companies that have more business segments, geographical segments and subsidiaries increase the complexity of the business. He also argued that additional segments and subsidiaries entail a greater audit effort and increase hours of the audit work because of the different dimensions of each segment. More segments and subsidiaries mean longer audit hours, extended travel time, additional time to learn

the possible different system in place at each subsidiary and additional time for consolidating the data at a firm level. Foreign based subsidiaries further add the work load to the auditor.

Generally, as audit client becomes more complex, more time and effort is needed to perform the external audit work. This is true because a more complex audit client means a more diverse organizational structure, and harder to review transactions. This increased audit effort is expected to lead to an increase in the level of audit fees.

Prior studies used various proxies for companies complexity e.g. (Simunic 1980; Francis and Simon 1987) Number of subsidiaries, (Caneghem 2010) used the number of industries in which the company is active, (Caramanis and Spathis 2006) ratios receivables to sales, (Naser et al., 2007; Gonthier- Besacier and Schatt 2007) the ratio inventories and receivables to sales and the growth levels, (Al-Harshani 2008) number of audit locations visited by external auditors.

2.5.4 Bank size (Client size)

The auditing firms demand higher fee from larger companies because of their complexity and more hours of work relative to small companies. While presenting the reason for positive relationship between audit fee & firm size Palmrose, (1986) stated that it is a natural phenomenon that evaluation of large company will take more time and additional efforts. In addition, Francis (1984) analyzed that audit fee is related to total assets of company. A plethora of studies provide the evidence between firm size and audit fee and found the positive relationship between them (Antle et al., 2006).

Client size has been found to be the most significant variable in explaining the variation in audit fee in the extant literature. For instance, in the pioneer work of (Simunic 1980) size alone explains about 57% of the variation in audit fees. O'Keefe et al. (1994) also noted that in previous studies client size alone explains more than 50% of the cross-sectional variation in audit fees, although many other client characteristics are correlated with size.

Obviously, one can expect such a positive relationship between audit fees and client size to exist, since the external audit firm is expected to perform more audit work (giving rise to a higher number of hours billed) as the client size increases to ensure the performance of an adequate amount of compliance and substantive testing. This increase in audit effort is naturally expected

to be associated with an increase in the amount of audit fees. In addition, large firms are more likely to be subject to public scrutiny, higher agency and political costs and are therefore a higher risk for the auditor (Naser et al., 2007). For this reason, larger companies try to minimize the agency cost by assuring investors and lenders by employing a reputable audit firm from the Big ones that costs more than the smaller one.

As research conducted by Simunic, (1980) justified the positive relationship between Auditee size and audit fee on the ground that the Auditee stock of assets seems more closely related to risk than would an accounting flow measure, such as revenue, because defective financial statements which result in a lawsuit frequently involve some deficiency in asset valuation. External auditors tend to approach the audit process through the ending balance sheet, relying on the fact that verification of balance sheet components indirectly verifies reported income. Therefore as the size of the client company increase, the required level of sample which comprise the assets will also increase.

However it is also argued that large companies adopt advanced accounting and internal auditing system. These in turn reduce the work load of the audit firm. In addition, the auditors' concentration in a particular industry may create specialization and economics of scale in the auditors and hence a lower audit fee.

Despite the positive relationship between bank size and audit fee, studies revealed the relationship is unlikely to be linear i.e. as the bank size increases audit fees would increase at a decreasing rate (Simunic 1980; Palmrose 1986; Francis and Simon 1987; O'Keefe et al., 1994). To this connection (Gerrard et al., 1994) argued very large audit clients represent an opportunity for the audit firm to benefit from certain economies of scale in reducing the amount of audit work performed, and consequently being able to charge lower audit fees.

Specifically (O'Keefe et al., 1994) contended that the nonlinearity is caused by both an underlying production nonlinearity which exists for all labor inputs and substitution of relatively cheaper labor (audit staff vs. seniors and managers) as client size increases. As a measure of audit client size, it is conventional in numerous prior audit fee studies to use total asset (logged). However, a handful of studies also employed other measures like turnover (e.g. Thinggaard and

Kiertzner, 2008), number of employee's (e.g. Naser et al. 2007), revenue e.g. (Maher et al, 1992).

2.5.5 Audit Firm Size

Client size has been found to be the most significant variable in explaining the variation in audit fee in the extant literature. For instance, in the pioneer work of (Simunic 1980) size alone explains about 57% of the variation in audit fees. O'Keefe et al. (1994) also noted that in previous studies client size alone explains more than 50% of the cross-sectional variation in audit fees, although many other client characteristics are correlated with the size.

Obviously, one can expect such a positive relationship between audit fees and client size to exist, since the external audit firm is expected to perform more audit work (giving rise to a higher number of hours billed) as the client size increases to ensure the performance of an adequate amount of compliance and substantive testing. This increase in audit effort is naturally expected to be associated with an increase in the amount of audit fees. In addition, large firms are more likely to be subject to public scrutiny, higher agency and political costs and are therefore a higher risk for the auditor (Naser et al., 2007). For this reason, larger companies try to minimize the agency cost by assuring investors and lenders by employing a reputable audit firm from the Big ones that costs more than the smaller one.

Big audit firms charge a premium because of their audit quality services as compared to the services provided by their competitors as well as examined that there exist a positive relationship between the audit firm size and fee charged by audit firm, that is, the big firm charge higher fee in exchange of services provided by them Palmrose, (1986).

In the case of Ethiopia audit Firm company size was classified according to the grade level given for them. Based on staff profile evaluation criteria firms categorized as A, B and C grade levels exist in the country. Grade A level Audit firms are 11 in numbers and they are categorized as high level audit firms and charges high audit fee than the other levels, grade B level audit firms are 15 in numbers and grade C level audit firms are 66 in numbers, totally included all grades 92 audit firms are exist in Ethiopia and because of their sensitivity Banks are audited by Grade A and B audit firms.

Several studies examined whether big audit firms charge higher fees than the non-big ones for their service. Typically the empirical studies revealed the existence of a fee premium for Big auditors. In those studies, different explanations are also given for the existence of such a fee premium. A premium price can reflect compensation for a quality audit (for being connected with a well-known market brand in the capital market); a premium for higher litigation risk (deep pocket hypothesis) or it may also be a reflection of oligopolistic market structure (non-competitive pricing hypothesis).

First, several re-searchers in auditing (e.g., Dopuch and Simunic (1980; 1982) cited in (Palmrose 1986; De- Angelo (1981)) have viewed audit services as quality-differentiated, but the quality is difficult to measure. When quality is difficult to measure in a quality differentiated market, market participants have an incentive to devise quality surrogates which minimize measurement cost. To this connection, one of the suggestions is to use auditor size as a quality surrogate on the ground that larger audit firms (in terms of market share) provide quality audits than their smaller counterparties.

It is argued that audit quality is the joint probability that a given auditor will both (a) discover a breach in the client's accounting system (auditor competence), and (b) report the breach (auditor independence) (De-angelo 1981). Large audit firms (auditors with more clients) have more to lose (i.e. termination of other clients, reduced fees for remaining clients, loss of reputation, etc.) by failing to report discovered misstatements in financial statements. Based on these considerations, large audit firms are assumed to provide audits of a higher quality than small audit firms. This collateral aspect increases the audit quality supplied by larger audit firms.

Second, the "deep pocket" hypothesis ("Big" audit firms are "wealthier" than "non-Big" audit firms) suggests in the case of a client firm's bankruptcy, investors/shareholders would be more willing to sue a Big Four firm in order to recover a portion of their investment. This higher level of litigation risk exposure is expected to be associated with higher levels of external audit fees and these additional costs correspond therefore to the sum of an "insurance premium" against future legal proceedings.

Third, the non-competitive pricing hypothesis suggests that, especially in the large clients segment of the audit market, “Big” audit firms face less competition than “non-Big” firms and therefore are able to charge higher audit fees.

However the empirical studies revealed mixed result regarding the relationship between audit fee and auditor size. Simunic (1980) found no significant differences in audit fees between “Big” audit firms and “non-Big” audit firms for both large and small audit clients in US. In addition, Gonthier- Besacier and Schatt (2007) in France, Al-Harshani (2008) Kuwait, and Caneghem (2010) Belgium did not found the Big4 fee premium.

On the other hand, Palmrose (1986) that audit fees of “Big” audit firms were higher than that of “non-Big” audit firms for small audit clients. Francis and Simon (1987) found the existence of a Big Eight price premium with respect to both second-tier national auditors and local/ regional auditors. They also suggest given the assumption of competition in the small auditee market segment, higher Big Eight prices imply Big Eight product differentiation.

Most of the major international audit firm networks had presence in Ethiopia prior to 1974. With the introduction of socialist system in 1974, all the international audit firms closed their offices in Ethiopia (World Bank 2007). Currently one of the Big 4 international audit firm Deluttee get access to the audit market through HST and company (a local audit firm). Most of the audit fee studies categorize auditor size based Big / Non Big. However, since there is no as such Big auditors in Ethiopia the researcher will classify size/reputation audit firm based on the license Grades (Grade A, B, C) given by OFAG; which is covered by researchers scope but nowadays changed to Board system.

2.5.6 Audit Risk

Auditors perform a more extensive audit to obtain an appropriate level of assurance in response to higher risk and/or charge a premium for accepting higher risk (Bell et al., 2001). We thus expect audit risk to be positively related to audit fees. Audit risk is a proxy by client financial performance (Firth, 2002) suggests that audit clients with low profitability are more likely to engage in questionable accounting practices as they seek to cover-up their poor operating performance. Recognizing the potential implications, auditors would increase their audit effort

and thus charge higher audit fees. Similarly, (Craswell and Francis, 1999) hypothesize a negative relationship between return on assets and audit fees loans quality, and public listing.

In addition loans quality; trade receivables are a high risk balance sheet item for non-financial companies. For Bank Holding Companies, a significant portion of their assets comprises loan receivables which normally generate the largest proportion of revenues. Audit procedures to verify receivables are more time-consuming, costly and involve higher levels of professional judgment.

In a Bank Holding Companies, auditors need to review the credit quality of borrowers and assess the effectiveness of the bank's credit risk management practices. In addition to risks associated with potential breaches of listing requirements, the wider dispersion of ownership in listed companies increases agency problems and thus poses greater risks to the auditor.

According to the audit pricing model of Simunic (1980), the audit fee is a function of the audit effort and the auditor's client specific risk. Numerous previous studies examined the relationship between audit fees and the client business risk. It has also been found to be a significant explanatory variable in explaining the variation in audit fees in most of those studies. (See Simunic 1980; Maher et al, 1992; O'Keefe et al., 1994; Johnstone and Bedard 2001; Bell et al 2001; Ahmad et al., 2006; Gonthier- Besacier and Schatt, 2007; Naser et al., 2007; Al-Harshani 2008; Thinggaard and Kiertzner, 2008; Caneghem, 2010; El-Gammal 2012 for review).

As per (AICPA 1992) cited in (Lyon and Maher 2005)) business risk has two components: (1) the client's business risk, which is associated with the client's continued survival and well-being, and (2) the auditor's business risk of being associated with a particular client irrespective of whether an audit failure is asserted. In addition, (Arens and Loebbecke 2000) cited in Lyon and Maher 2005)) define business risk as "the risk that the auditor or audit firm will suffer harm because of a client relationship even though the audit report rendered for the client was correct" (p. 135).

Much of the prior studies focus on litigation risk, which is the risk of incurring liability payments and the risk of damaged reputation for the quality of its services (see for review O'Keefe et al., 1994; Johnstone and Bedard 2001; Bell et al. 2001)). Others for example, (Lyon and Maher

2005) have also examined relation between business risk and audit fees by examining whether a particular type of potentially risky client misconduct that is not illegal relates to higher audit fees.

Stice (1991) cited Pratt and Stice (1994) developed and test a model to predict litigation against auditors, which includes both client and auditor characteristics. Client characteristics include financial condition, levels of accounts receivable and inventory, sales growth, market value of equity, and variability in the client's stock returns. Auditor characteristics, which included auditor quality, independence, and tenure, were predicted to relate to litigation through their effects on the likelihood of an alleged audit failure.

Client characteristics are given emphasis in audit research based on the notion that auditors assess litigation risk in the planning stages of the audit and in the pricing of the audit service (Simunic 1980; Francis and Simon 1987). In addition, (Bell et al., 2001) argued that legal cost of business risk do not include legal costs arising from failure to conduct an appropriate audit. Further, (Pratt and Stice 1994) also contended that “it would be difficult for auditors to objectively recognize their own levels of quality and independence in their judgments about litigation risk, the audit plan, and client fees” (p. 641) noting that auditors should consider client characteristics when assessing litigation risk, planning audit procedures, and pricing audit services.

Auditing standards (e.g., International Standard on Auditing ISA), No. 200) suggest that auditors should respond to risk by altering the nature, timing, and extent of audit procedures. If a particular client is perceived to have higher business risk, the probability of material misstatement will also be higher; this in turn will require a greater effort on the auditor part to attain a target level of assurance. As stated by, (O'Keefe et al., 1994, pp. 249) put it, “greater business risk of the client company, motivates the auditor to produce a more “defensible” audit, involving production of better documentation and, perhaps, tests which are helpful in forming legal defense”. Further, in a competitive equilibrium, risk should prompt auditors either to charge an insurance premium to compensate future losses or to increase audit effort in defense of future litigation or reputation losses, or both (Simunic 1980, Pratt and Stice 1994, Bell et al., 2001).

As the research conducted by Bell et al., (2001) suggested that the cost of business risk can be transferred from audit firms to client companies in either ways:

- Explicitly through a firm's assessment of a company's risk and inclusion of the risk in the firm's bid, or
- Implicitly where the available information about the riskiness of the company is efficient,
- Yet impounded in a market-determined audit price and explicit consideration of a company's risk is not required for an individual audit firm. .

However, there exists no clear cut answer which one or more of several possible risk measures should be used. The results in the prior studies are inconsistent with regard to the various measures of risk and their relationship with audit fee. Moreover, the impacts of the variables in explaining audit fees vary across countries. To this connection, Nikkinen and Sahlström (2003) suggested culturally sensitive and market specific variables could potentially have a significant impact on the level of audit fees paid.

A client's financial condition is related to the probability of both capital provider losses and the auditor being held responsible for those losses. Receivables and inventories are "risky" balance sheet components for the fact that they require specific auditing procedures like confirmation and observation. Further, the valuation of these items is a complex task, requiring a forecast of future events. Thus, client risk varies cross-sectionally with the relative size of receivables and inventories in different auditee balance sheets.

Extant theory suggests that audit fees should be a function of the size of the client, the risk of the client, and the complexity of the client's operations. However, as noted by Fields et al, (2004) that what are termed „bank regulatory risks“ are likely to possess elements of both client risk and client complexity. For example, a bank could be viewed as „risky“ because it has complex contracts with high-risk borrowers. He further argued that it would be extremely difficult, if not impossible, to disentangle the audit fee effect attributable to „client complexity“ and the audit fee effect attributable to „client risk.“

As a result, proxies developed in terms of their regulatory constructs (i.e., risks), their influence on audit fees is likely to stem from both factors (i.e., risk and complexity). These regulatory risks in the bank audit literature developed from the CAMEL (Capital adequacy, Asset Quality, Management Efficiency and Liquidity) frame work because regulatory bodies usually use this rating for their off-site surveillance.

Therefore, it is true too to the Ethiopian corporate governance of private banks due to the expansion of the private banking industries in the country, Ethiopia. Consequently, the audit of listed companies is likely to be more extensive than non-listed companies (Palmrose, 1986). We thus expect a positive association between listing status and audit fees in the banking sectors.

2.5.7 Audit Quality

The purpose of the quality control is to ensure that the principles of the system of quality of control have been followed during the audit and that sufficient, appropriate audit evidences has been obtained to support the audit opinion including the documentation and justification of significant professional judgments

Investors have imperfect information about audit quality because the observable outcomes of an audit are confined to be attributes of audited accounting numbers and audit report. While the audit report is under control of the audit firm, the preparation and disclosure of the financial statement are under the control of the auditee.

Auditing is an example of services where quality is not easily observed and price may be viewed as an indicator of quality and the audit fee is determined primarily by the number of hours worked by the audit firm (O'Keefe et al., 1994) and thus prior audits have regarded the fee as a proxy for audit quality (Creswell et al., 1995).

Profit maximizing audit firms have incentives to increase fees and to avoid fee decreases. Nevertheless, a client may be willing to pay a higher audit fee if the fee is indicator of audit quality. Thus a client may not demand a fee decreases when expected audit cost fall (e.g due to a fall in client size) or the client may be more willing to accept the fee increase when the expected audit cost rise (due to increase in client size). Thus we expect fee decreases are less common than fee increases, relative to the fee changes that would be expected if there were perfect information about audit quality (Ferguson and Taylor, 2005).

As proposition was tested by Simunic (1980), who concluded that the Big Eight as a group tended to charge lower fees than non-Big eight firms. His conjecture was that his results were consistent with scale economies enjoyed by the larger CPA firms. He did observe, however, that

one of his big eight firms seemed to „charge higher fees“ which might reflect the higher quality of the audit services supplier by that firm (palmrose, 1986).

Auditor quality is one of the important elements to make financial reports more reliable and audit committees play significant role in it. The degree of audit quality is significantly affected by the audit committee Mansouri et al, (2009). More specifically, effective audit committees are anticipated to improve financial reporting quality by assuming responsibilities especially reviewing the financial statements prepared by the client's management.

Additionally, audit committees are also estimated to play a key role in ensuring the effectiveness of external auditors in the audit engagement process by fulfilling a number of responsibilities including the selection and remuneration of external auditors, as well as reviewing the auditors work, and also it is evident that prior and current research indicate that both the existence of the audit committee and the attributes of audit committee members affect the usefulness and reliability of financial reporting Carcello, J. V., & Neal, T. L. (2002).

As the research conducted by Zerni, (2009) explained audit service as a unique among other professional services for two major reasons. First, auditors are hired and paid by the client, but their product is really used by the third-parties (e.g., investors), to whom they owe a standard of care. Second, the quality of an audit cannot be directly observed prior contracting and, in general, not even after the audit is conducted. The only observable outcome of the audit process is the issued audit report, which, at least in its standard form, does not contain much information about the audit quality.

As the research undergone by DeAngelo (1981) defined audit quality as the market-assessed joint probability that an auditor will discover an error in the client's account and report the error to the third parties. She also suggested the probability that a given auditor will discover a breach depends on the auditor's technological capabilities, the audit procedures employed on a given audit, the extent of sampling, etc. Further, the conditional probability of reporting a discovered breach is a measure of an auditor's independence from a given client.

Several researchers investigated the factors which affect audit quality. Size and independence related issues (i.e. the proportion of audit fees received from a particular client, auditor tenure,

the provision of NAS and other audit client relationships) are given emphases as a determinant of audit quality.

Needlessly to say, independence is the corner stone of the accounting profession. As Moore et al., (2006) put it independence is the only justification for the existence of accounting firms that provides audit service; if it were not for the claim of independence, there would be no reason for external auditors to exist, since their function would be redundant with that of a firm's inside auditors. So far, no formal „theory“ of auditor independence exists and thus, until recently, analytical models concerning independence have been very limited (Beattie and Fearnley n.y).

DeAngelo, (1981) defined auditor independence as „the conditional probability of reporting a discovered breach“. Because independent behavior (or independence in fact) is generally unobservable, the appearance of independence assumes prime importance among stake holders. This suggests that auditor independence is synonymous with auditor objectivity and the ability to withstand client pressure to acquiesce to substandard reporting.

Several factors have been identified in literature which may influence auditor's independence such as lack of stricter regulations, the nature of the auditor-client relationship, extended audit tenure, the provision of NAS, competitive pressures leading to low balling /price cutting.

Accounting scandals of Enron and other giant companies in the west inspire regulators and researchers to scrutinize the auditing profession. Economic dependence (proportion NAS to total audit fees) of external auditors has received researchers attention. It is argued that provision of NAS by incumbent auditors impair auditor independence. First, NAS fees make auditors to be financially dependent on their client, and as a result weaken to resist management pressure for fear of losing their business. Secondly, the consultancy nature of NAS puts auditors in a compromising position which potentially threaten their independence about the transaction they audit. In addition, Positive abnormal audit fees or the presence of positive client specific quasi rent creates an incentive for the auditor to compromise independence with respect to a specific client (DeAngelo 1981; Choi et al. 2010; DeFond et al., 2002).

However, a counter theoretical argument also suggests that auditors have market-based institutional incentives to act independently. The expected costs of sacrificed independence

include the reputation loss and litigation costs associated with audit failures DeFond (2002). The size of the audit firm is often considered when examining the issue of fee dependence. For example, DeAngelo's (1981) economic model states that incentives for an auditor to compromise independence will be a balance between the importance of the client and the litigation and reputation costs which could result from breached auditor independence. She further argues that smaller accounting firms may have bigger incentives to compromise independence than larger accounting firms as smaller firms have fewer clients and so each client represents a larger proportion of income to the auditor.

Researchers, like Ahmad et al., (2006) suggested positive and negative abnormal fees create different incentive effects. For clients with positive abnormal fees, auditors are more likely accept client pressure as abnormal audit fees increase, whereas for clients with negative abnormal fees, auditors are unlikely to compromise audit quality. Regarding the relationship between audit fees and Non audit fees Simunic, (1984), cited in Ahmed et, al (2006)) argues that negative relationship among audit fees and Non audit fees is due to the knowledge spill over from the provision NAS to audit. In other words the knowledge gained through the provision of NAS can be utilized in the audit. The client would benefit from the knowledge spillover in the form of lower audit fee.

Apart from level of NAS and audit fees, auditor size has been the most commonly used quality surrogate and it has been employed in a vast body of prior audit research. DeAngelo (1981) analytically shows that auditor likelihood of reporting breaches (i.e. independence) increases with audit firm size. Thus, according to the DeAngelo's framework, audit quality is a function of the (market-assessed) competence and independence of the auditor. She proposes that the auditor's investments (start-up costs) in the client relationships enable the incumbent auditor to earn client-specific quasi-rents and that these quasi-rents represent the collateral that is lost if „promises“ are not kept (i.e. in case of audit failure).

According to this framework, auditors with a larger number of clients possess greater total collateral and as a consequence of avoiding audit failure arguably report a more independent opinion on client's accounts (DeAngelo 1981). The researchers like: Husam Al-Khaddash et al.,

(2013) put clearly those factors affecting audit quality with reference to audit committee of the bank.

2.6 Empirical Review

Several empirical studies address those factors affecting audit fees in both industrial and financial companies though recently evolving for the later one. Recent studies also extended audit fees studies to investigated audit quality and independence issues. This section presents the review of empirical studies in two sections. The first section deals with audit fees studies in industrial while the second section review studies for financial companies.

2.6.1 Audit Fee Studies in Non-financial Companies

A plenty of empirical studies has been conducted to identify the factors that may influence audit fees especially in the developed countries. These factors have been investigated in literature from both the client (Auditee) perspective as well as the auditor perspective. The major factors that influence audit fee from the client perspective include client size, client business risk, profitability, business complexities and client industry. On the other hand Auditor size/ reputation and computation also influence audit fee from the auditor perspective.

Research conducted by Bell et al., (2001) studied the relation between auditors' perceived business risk and audit fees to determine whether audit firms or their clients bear the expected legal costs of business risk. Using data from the audit working papers of a sample of 422 U.S audit performed in 1989 they find evidence that audit fees are increasing in the engagement partners' assessments of business risk.

Pratt and James (1994) examined whether auditor judgments of litigation risk and their recommendations for the preliminary audit plan and client fees are influenced by certain client characteristics. They used a sample of 243 audit partners and managers of four "Big 6" firms in US. With an experimental design the researchers suggest that auditors rely heavily on their assessments of a client's financial condition to assess litigation risk. Poorer financial condition was associated with higher levels of litigation risk, more audit evidence, and higher audit fees. Their result also weakly support high levels of receivables and inventory, equity market value, and sales growth were associated with high levels of litigation risk. The authors finally suggested

that audit fees reflect both the amount of audit evidence collected and an additional premium to cover litigation risks.

Researchers Lyon and Maher (2005) investigated the relation between audit fees and business risk for audit clients doing business in developing countries where bribery of top government officials has been an accepted business practice. Using a sample of 82 companies registered with the SEC a cross-sectional audit fee regression model based on prior audit fee research after controlling for cross-sectional differences in client size, audit complexity, and auditor-client risk sharing. They also expand their model to include control for variables that might be correlated with the payment of bribes. Their results indicated that clients who engage in behavior that is viewed by some as misconduct incur higher audit fees than those who do not.

Davis et al., (2009) studied whether providing audit clients with non-audit services result in knowledge spillovers and audit production efficiencies that could produce economic rents for the auditor. Using a sample 98 clients 3 years data, their result suggest that, although purchasers of non-audit services pay higher audit fees than non-purchasers, the higher fees are associated with a proportional increase in audit effort, measured in this study as unweighted and weighted audit hours. These findings are inconsistent with one interpretation of prior research: that performing non-audit service for audit clients may provide the auditor with incentives to compromise objectivity.

Palmrose (1986) studied to test whether there is a systematic relationship between audit firm size (in both absolute size and relative market share) and audit fees using 1200 companies(both public and non-public) in 39 industries. She used a mail questionnaire with a response rate of 30%. Her result indicates that, there is a statistically significant relationship between auditor size and audit fees based on being a Big-Eight/ non- Big-Eight classification.

Francis and Simon (1987) studied the presence of audit premium to provide further evidence on audit pricing in the small-client segment of the U.S. audit market for publicly-traded companies. They used a final sample of 220 small companies having sales less than \$ 125 million with a response rate of 23%. Audit fees are regressed on a set of explanatory variables that includes the experimental variable audit firm size. Their result strongly supports the existence of a Big Eight price premium with respect to both second-tier national auditors and local/ regional auditors.

They also suggest given the assumption of competition in the small auditee market segment, higher Big Eight prices imply Big Eight product differentiation.

The research conducted by Caneghem, (2010) to test whether a well-documented Big fee premium also applies to the Belgian audit market. He used a sample of 4,403 (of which 99% were privately held) observations for the year 2007. The researcher used OLS (the traditional audit fee model) In addition to the traditional audit fee model, based on the studies of (Ireland and Lennox, 2002), the author used a two-stage procedure in order to control for potential endogeneity biases (auditor self-selection). His result based on the traditional audit fee model is consistent with Big4 auditors charging a fee premium compared to non-Big4 auditors. However, after controlling for the self-selection problem the results did not support the Big4 fee premium.

It also estimated the premium charged by large audit firms after controlling for the effects of auditor selection on the estimated fee premium using a two-stage model in UK companies. They find the effects of auditor selection on audit fees are statistically and economically significant. In addition their result shows the premium earned by large audit firms is more than twice as large when selectivity bias is taken into account (53.4% compared to 19.2%). Further their result indicate large auditors attract clients that are of higher than average quality and require less than away audit effort.

Gonthier-Besacier and Schatt (2007) based on audit fees paid in 2002 by 127 non-financial public French firms studied whether specific “traditional” determinants of audit fees, as previously identified in other countries, prove to be relevant in France. In addition, they analyzed whether the joint audit process (which is specific to the French setting), and especially the presence of one or two Big Four firms, has an influence on the amount and the division of audit fees.

In their methodology, in count to the traditional determinants of audit fees, they also take in to account factors arising from French joint audit practice like distribution of fees between auditors and the number of Big Four firms involved. Their result shows that size of the audited firm and risk to be significant factors in determining the audit fees in France. It shows that also audit fees become higher when a firm decides to employ the services of only one Big Four firm. They

recommended that there exists an advantage for French companies, employing two of the Big Four firms for their joint audit in terms of audit fees.

Al-Harshani (2008) examined factors influencing the amount of external audit fees using a sample which consists of 49 audit engagements with 2005 fiscal-year ends that were performed by both “Big” and “non-Big” audit firms in Kuwait. He used a cross-sectional audit fee regression model consisting of explanatory variables commonly believed to be key determinants of external audit fees. His results showed that the amount of audit fees in Kuwait is positively related to the audit client size and profitability of the audit client. His results also indicated that external audit fees are inversely related to the client’s liquidity ratio, as a measure of client risk. The results, however, do not provide significant evidence of the expected relation between external audit fees and the number of audit locations visited, the client’s debt-to-equity ratio and the audit firm size.

Garsombke et al., studied whether clients who obtain competitive audit engagement bids have lower audit fees. Using 507 samples, the researchers found that choosing the lowest of the bids may not result in lower fees, on average, than firms that choose other than the lowest bid.

Beattie and Fearnley (1998) studied factors influencing auditor changes within external auditing environment, which is characterized by increased competition using questionnaire survey of 508 listed UK companies. Their results suggest the expectation of a reduced audit fee was not a top priority when selecting firms to tender.

2.6.2 Empirical Studies on Bank Audit Fees

As the research conducted by Fields et al., (2004) investigated audit pricing for financial institutions using standard audit fee model for industrial companies by incorporating measures of risk and complexity that are unique and used by bank regulatory agencies. Using a sample of 277 financial institutions in fiscal 2000 they find that audit fees are higher for banks having more transactions accounts, fewer securities as a percentage of total assets, lower levels of efficiency, and higher degrees of credit risk.

They also find that audit fees are higher for savings institutions that are more involved in acquisition activity, and for institutions that are required by regulatory agencies to maintain

higher levels of risk-adjusted capital. Their model speaks directly that complexities and risks considered important by regulatory agencies are also the drivers of audit fees and hence tend to be priced by audit firms.

Anandarajan et al., (2005) studied how LLPs are used in earnings management and capital management in Australia using OLS regression model. They used 441 number of bank-year observations comprised of 79 for listed and 362 for unlisted commercial banks. Their result revealed evidence of earnings management behavior using LLPs by Australian banks, and by listed commercial banks in particular relative to other types of banks. They also find evidence of accentuated earnings management behavior using LLPs in the post-Basel period. Further, their findings indicate that reported financial numbers may not reflect the underlying economic reality of the financial institution.

2.7 Researchable Gaps from the Theoretical and Empirical Review

To conclude up, the overall argument above on the demand and supply factors affecting audit fees reveals two underlying reasons for the fluctuation on audit fees. On the demand side better quality audit and somehow competition in the audit market factors affect audit fees. It is widely believed that Big audit firms provide better quality audit services than the smaller ones and hence require higher fee even if the empirical results are not still conclusive.

On the supply side, factors affecting audit fee are directly or indirectly connected to risk. The audit fee depends as to how a particular factor attributable to the audit client affects the audit risk. Most of the risk drivers factors for the auditor increase as the audit client size increase. For example as the client size increase the complexity and the proportion of current asset (risky assets like inventory and receivables) is also expected to increase.

Client size, auditor size and risk factors evidenced to be the most important variables in explaining the variations in audit fee in literature. However there are still variations in the factors explaining audit fee across countries. In this regard (Nikkinen and Sahlstr, Om 2003; Hay, 2006) suggested that cultural sensitive and market specific variables could potentially have a significant impact on audit fees paid.

In spite of the fact that, factors affecting debated so far holds for all companies, the proxies used to measure these factors differ somewhat for private commercial banking industries because of the different nature of operation and the environment they operate in. Therefore, risk and complexity proxies that are considered important by regulatory agencies are found to be the major drivers of audit fees for private commercial banking industries.

Through respect to factors affecting audit fees the studies revealed a mixed result. On the one hand it's found that firms that pay abnormally higher audit and non- audit fees tend to manage earning. In other words, firms use higher audit and non- audit fees as leverage to manage earning by compromising auditor independence. Still some others argue that auditors have market-based institutional incentives to act independently (DeAngelo 1981; DeFond et al., 2002).

The sacrificed independence costly is to mitigate and they have more reputational capital to maintain. This component of literature also suggest that negative relationship among audit fees and Non audit fees is due to the knowledge spill over from the provision NAS to audit. This implies the knowledge gained through the provision of NAS can be utilized in the audit and the client would benefit from the knowledge spillover in the form of lower audit fee.

Even though a plenty of studies investigated factors affecting of audit fees and the economic bond between auditors and client firms, in different countries especially in the western; there is a lack of empirical evidence from the developing countries condition like Ethiopia. Only a limited studies had been conducted in the area from developing countries as far as the researcher knowledge is concerned e.g. Nigeria, Lebanon, South Africa, Jordan.

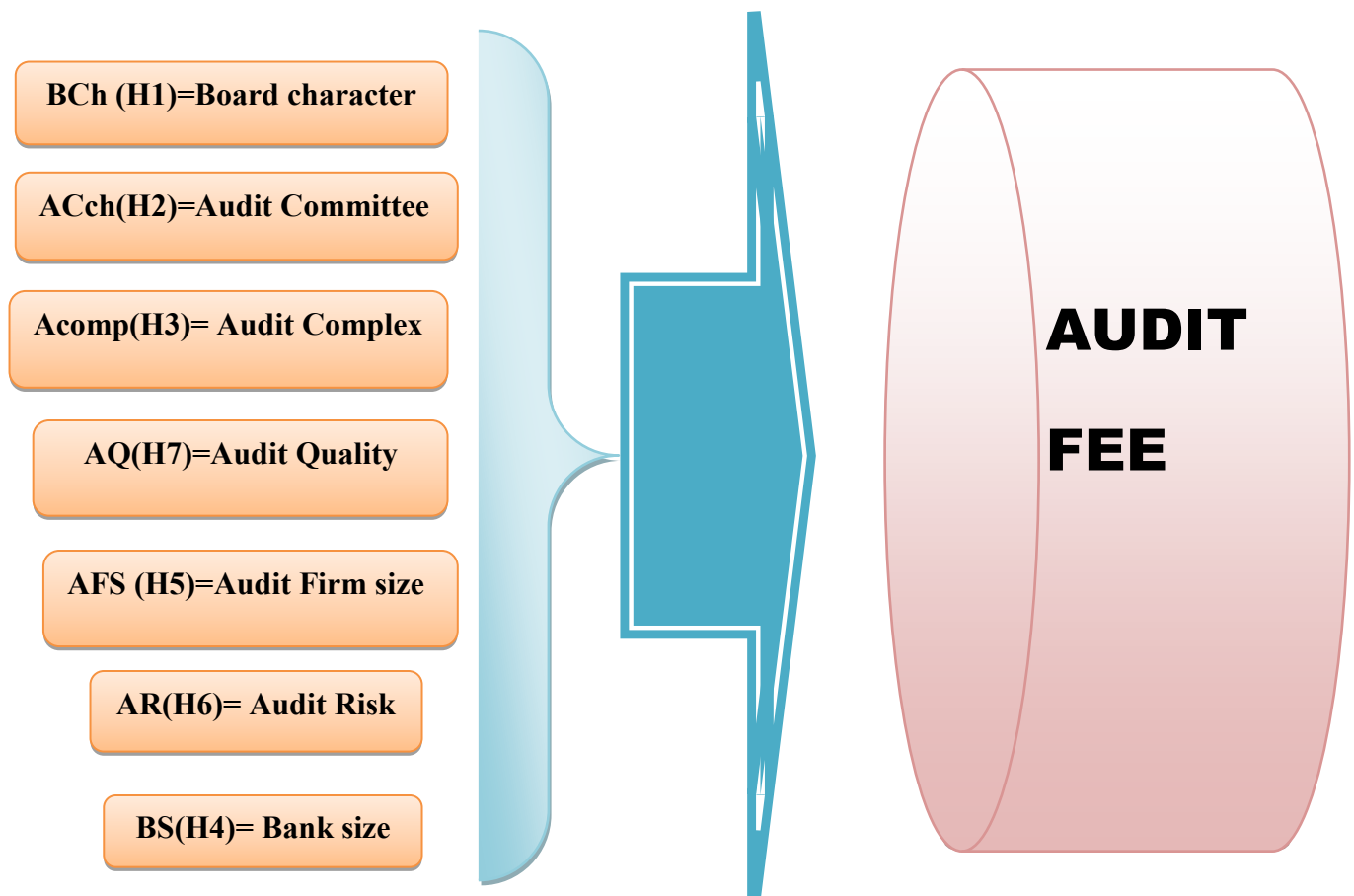
Researches in the area is very useful in giving an insight for both audit firms and company stakeholders as to how audit firms charge audit fees. It can also help regulatory and professional bodies to properly monitor the external audit profession and to maintain trust among the various stakeholders. Consequently; it would be valuable to ask what factors the external auditors consider in affecting the audit fees for their private commercial banking industry clients in Ethiopia. So auditors consider significant factors which are measured by the regulatory subsidiaries as well as there is any effect on the audit opinion as of economic bond between the auditor and the client private banking industries in Ethiopia. This research project paper aimed

to communicate unswervingly to such problems using sample of Ethiopian private commercial banking industries.

2.8. The Conceptual Framework of the Study

The major objective of this panel study is to investigate the impact of factors that are believed to influence private commercial banking industries for audit fees from prior studies that affects audit fees in the audit of private commercial banking industries of Ethiopia. Using different risk, complexity, financial stability measures peculiar to the banking industry and other factors which are found to influence audit fees in prior studies. The study concerned to assess factors that external auditors consider in pricing their audit service for Ethiopian private commercial banking industries. Specifically, the study assess whether audit fee is influenced by BOD, audit committee, audit complexity, bank size, audit firm size, audit risk and audit quality in the private commercial banking industries in the country.

Figure 2.1 The conceptual frame work of Research Hypotheses and Variable



2.8.1. Research Hypothesis Development

In order to achieve the objective of the study the researcher developed seven hypotheses by modifying from different scholars literature reviewed. The factors that affect audit fee with their theoretical underpinnings are discussed in detail in the second chapter. In this section, the researcher provides a brief theoretical discussion on factors that affects audit fee in the private commercial banking industries in Ethiopia and the hypothesis developed for the study as follows:

Board Characteristics: A board of directors is a body of elected or appointed members by shareholders; who jointly oversee the activities of a company or organization. It was examined that two characteristics of the board, via board independence proxied by the proportion of independent directors, and board diligence proxied by the number of board meetings. A number of studies document positive relationships between board independence and audit fees. Carcello and Neal (2000) suggest that a more independent and diligent board demands differentially higher audit quality services to attain a higher level of assurance. They advocate that independent directors are more concerned with audit quality than non-independent directors as they are exposed to losses from risks of reputation damage and litigation.

In general, the board has basic responsibilities of hire a chief executive, support chief executive and evaluate performance, determine Strategic direction ,assure effective organizational planning, assure availability of resources and protection of assets, maintain oversight of programs and services, enhance public image, assure legal and ethical behavior and accountability, build governance capacity and evaluate the board's own performance.

In Ethiopian context, according to banking business Proclamation No. 592/2008, bank director or chief executive officer of a financial institution may not, at the same time, serve as a director of a bank. Moreover, a business entity or a company in which such director or chief executive officer has 10 percent or more equity interest may not serve as a director of a bank. An employee of a bank may not be a chairperson of the board of directors of that bank or a director of any other bank. So to test the study the researcher selects two members as a proxy; president or v/pres and one member of the board excluding audit committee.

H1: Board Characteristics have a positive and significant relationship with audit fees

Audit Committee characteristics: Audit committees play an important role in the governance surrounding the finalization of critical judgments, estimates and presentation affecting the accounts. The primary source of information for audit committees is the executive management. Good quality reporting from auditors to audit committees can add context to that and highlight gaps in management reporting.

Independent directors on audit committees have incentives to protect their reputation and avoid potential litigation. These incentives can be explained by the demand-based perspective in the context of regulatory oversight of banking sector and the scrutiny of the role of independent directors. The demand-based perspective suggests that independent directors seek differentially higher audit quality. Such greater assurance provided by the external auditor necessarily requires additional audit work which is reflected in higher audit fees (Carcello et al., 2003; Abbott et al. 2003).

On the other hand, the audit risk perspective suggests a negative relationship between effective audit committees and audit fees. Clients with more effective audit committees provide greater vigilant oversight of the internal controls and the financial reporting process (Klein, 2002). Consequently, auditors may evaluate lower audit risk for BHC with more effective audit committees and reduce the extent of audit effort and lower fees (Tsui et al., 2001). For the analysis of the research problem the researcher selects from the member of the audit committees; chairperson and one member of the audit committee.

H2: Audit Committee characteristics have a positive and significant relationship with audit fees

Bank size: it is generally assumed that as the audit client/Auditee size increases the audit fee that the audit firm charge will also increase. This positive relationship has been justified on the ground that firms with large size require more audit hours to analyze large volume of transactions, subsidiaries, various classes of assets (Simunic 1980; O'Keefe et al., 1994; Caneghem, 2010; Gonthier-Besacier and Schatt, 2007). Hence the longer the audit hours the higher would be the audit fees. The relationship between Client size and audit fee is empirically

evidenced across countries and conventionally all the studies found positive relationship (e.g. Simunic 1980; O'Keefe et al., 1994; Ahmad et al., 2006; Gonthier-Besacier and Schatt, 2007; Naser et al., 2007; Al-Harshani 2008; Thinggaard and Kiertzner, 2008; Caneghem, 2010; El-Gammal 2012). In addition, bank audit literature demonstrates the same effect of bank size indicate that the client size by itself (proxied by the natural logarithm of total assets) explains over 70% variances in audit fees. In addition bank size is highly correlated with a series of bank financial risk measures, asset securitization risk measures and auditor attributes suggesting the effect of bank size could be either direct or via its indirect effects on other audit fee factors (Wui 2012). Based on the above theoretical argument a positive relationship between audit fees and bank size will be expected. Similar to prior studies a natural logarithm of total asset is employed for the fact that the relationship may not be linear. To analysis the problem raised regarding to this; the researcher selects the financial statements of five years of PCBI from 2010 to 2014/15.

H3: Bank size has a positive and significant relationship with audit fees.

Audit complexity: As the research conducted by Simunic, (1980) pointed out that decentralization and diversification of the audit client company increase the number of decision centers in an organization whose activities need to be monitored and hence increase complexity. The mentioned research also suggested that companies that have more business segments, geographical segments and subsidiaries increase the complexity of the business. He also argued that additional segments and subsidiaries entail a greater audit effort and increase hours of the audit work because of the different dimensions of each segment. More segments and subsidiaries mean longer audit hours, extended travel time, additional time to learn the possible different system in place at each subsidiary and additional time for consolidating the data at a firm level. Foreign based subsidiaries further add the work load to the auditor.

Generally, as audit client becomes more complex, more time and effort is needed to perform the external audit work. This is true because a more complex audit client means a more diverse organizational structure, and harder to review transactions. This increased audit effort is expected to lead to an increase in the level of audit fees.

Prior studies used various proxies for companies complexity e.g. (simunic 1980; Francis and Simon 1987) Number of subsidiaries, (Caneghem 2010) used the number of industries in which

the company is active, (Caramanis and Spathis 2006) ratios receivables to sales, (Naser et al., 2007; Gonthier- Besacier and Schatt 2007) the ratio inventories and receivables to sales and the growth levels, (Al-Harshani 2008) number of audit locations visited by external auditors.

H4: Audit complexity has a positive and significant relationship with audit fees.

Audit firms Size: Deanglo (1981) analytically demonstrated that larger audit firms provide a better quality audit than their smaller counterparties. However, the empirical evidence shows mixed result whether larger audit firms charge a higher audit fee premium for the quality service they provide than the smaller ones. Palmrose (1986), Francis and Simon (1987) found a positive relationship between audit fee and auditor size. In this study a positive relationship between audit fees and the auditor size is expected. The study used the auditor grade (A &B) given by OFAG to classify auditor's size in to Big Versus non-Big that the license was given to them before 2014.

H5: Auditor size has a positive and significant relationship with audit fees.

Audit risk: Auditors perform a more extensive audit to obtain an appropriate level of assurance in response to higher risk and/or charge a premium for accepting higher risk (Bell et al., 2001). We thus expect audit risk to be positively related to audit fees. Audit risk is a proxy by client financial performance (Firth, 1997) suggests that audit clients with low profitability are more likely to engage in questionable accounting practices as they seek to camouflage their poor operating performance. Recognizing the potential implications, auditors would increase their audit effort and thus charge higher audit fees. Similarly, (Craswell and Francis, 1999) hypothesize a negative relationship between return on assets and audit fees loans quality, and public listing. In addition loans quality; trade receivables are a high risk balance sheet item for non-financial companies. For Bank Holding Companies, a significant portion of their assets comprises loan receivables which normally generate the largest proportion of revenues. Audit procedures to verify receivables are more time-consuming, costly and involve higher levels of professional judgment. In a Bank Holding Companies, auditors need to review the credit quality of borrowers and assess the effectiveness of the bank's credit risk management practices.

Therefore, it is true too to the Ethiopian corporate governance cases due to the expansion of the private banking sectors in the country. Consequently, the audit of listed companies is likely to be more extensive than non-listed companies (Palmrose, 1986, Simunic and Stein, 1996). Thus expect a positive association between listing status and audit fees in the banking sectors.

H6: Audit risk has positive and significant relationship with audit fees.

Audit quality: The existence of (excess/positive) client-specific quasi-rents creates an incentive for the auditor to compromise independence with respect to a specific client (DeAngelo 1981; DeFond et al., 2002). Choi et al., (2010)) conjectured when the auditor receives abnormally high audit fees from a client (i.e., abnormal audit fees are Positive), the auditor possibly allow the client to engage in opportunistic earnings management. He further reasoned that for clients with positive abnormal fees, the benefits to the auditor from acquiescing to client pressure for opportunistic earnings management can outweigh the associated costs (e.g., increased litigation risk, loss of reputation). For those firm's earnings increase has been gained through doubtful accounting practices are likely to pay higher audit fee to persuade its auditors to certify for those earnings and give it a better audit opinion than the facts merit (Xie et al. 2010).

H7: Banks audit quality has positive and significant relationship with high audit fees

CHAPTER THREE

3.0 RESEARCH DESIGN AND METHOD

Introduction

This chapter reports the research design and methodology which is a systematic way to accomplish the research objectives or to solve the research problem. The chapter is structured as follows: Section 3.1 explains about research design, Section 3.2 elaborate the subject of the study, Section 3.4 represents about research methods and Section 3.5 of this chapter is about research design which includes purpose of the research, research strategies, data collection, research measures, population, sampling, sampling frame, and sample size of the study.

3.1. Research Design

In order to understand the common behaviors of individual investors, case study, experimental or longitudinal design are not suitable but cross-sectional design capable to do so. A cross-sectional design is employed for a data collected and analyzed more than one case at a single time. The pattern of association is then examined by using the collected quantitative or quantifiable data. Therefore, this feature is relevant to this study, the first because it fits the nature of this study to describe a **common trend of investors' behaviors** rather than one specific case, and the second because data in this study has not been collected in stages but carried out in a single time period and finally there is a relative large sample size in the study.

3.1.1 Research Approach

There are two types of research approaches such as deduction and the induction approach. The study used deduction approach because the conceptual framework is built based on the previous studies. A deduction approach adopts current theories and concepts to justify research relationships. Deductive approach is searching for an explanation of the causal relationships between variables by collecting data in most cases using a quantitative method. It also helps in generalizing from the chosen sample to the whole population Kothari, C. (2004).

3.1.2 Research Method

There are three common approaches to conduct a research project in the area of business and social sciences namely; quantitative, qualitative, and mixed research approaches Kothari, C. (2004). Quantitative method is an objective and systematic process in which pieces of numerical data are used to obtain information about the world and which are analyzed by using mathematical methods. It is also used to test a theory by identifying the variables based on the previous studies, examining the research relationships and obtaining the findings. It can generalize research findings when the study collects data from a random sample which represents its population and it has sufficient sample size. Quantitative method can also achieve greater objectivity and more accurate results if we comparing with the other methods. It depends on a few variables and it follows many tools in order to test the validity and reliability of the data. Therefore, in order to achieve the objectives of this study and thereby to give answer for its problems, quantitative research approach was used by the researcher.

3.1.3 Research Strategies

Research strategies help researchers to provide data that can answer the research questions or achieve the research objectives. There are many types of research strategies, depending on the types of data that the researcher want to collect and analyze, such as experiment, survey, case study, action research and grounded theory. However, this study employed survey strategy because the data collected from as such kinds of strategy can be used to suggest a possible explanation of the relationship between the study variables. Furthermore, the survey is the most relevant to the study which follows deduction approach and quantitative method.

3.1.4. Data Sources and Collection Method

3.1.4.1 Sources of Data

Two types of data sources were used in this research such as primary and secondary. The survey questionnaires helped us to collect a primary source of data; whereas the five years audited financial statement selected from the 13 private commercial banking industries were collected from their annual financial report as secondary sources of data.

3.1.4.2 Data Collection Technique

From the strategies of inquiry associated with quantitative methods, survey method was adopted in this study. It enables the researcher to test objective theories in the real world by constructing the cause and effect relationship between variables and promote the replication of research. In this study, this approach allowed the researcher to examine the impact of various bank specific factors and auditor attributes on the factors of audit fees in private commercial banking industries of Ethiopia by replicating the empirical evidences in other countries.

A questionnaire was considered as a key tool in collecting data and it is the most widely used tool in social research such as this study. It contains standardized questions whereby all respondents may understand these questions in the same way. Therefore, it is more suitable for descriptive or explanatory research and is inappropriate to exploratory research which requires many open-ended questions. Hence, this study collected data using a questionnaire because the present study is an explanatory research. Data from Ethiopian private commercial banking industries were collected using self-administered questionnaires which were hand-delivered and hand-collected.

3.1.4.3 Research Instruments

The primary and secondary data were used to accomplish the study, and to collect the data from the respondents included in the sample size questionnaires were distributed. The questionnaires were distributed to the Board of Directors (BOD), Audit Committee (AC), Internal Controllers (IC), Internal Auditors (IA) and finance director of the private commercial banking industries. Each construct (hypothesis) was measured with multi-item scales of linear regressions and correlation which were developed to be appropriate to the private commercial banks. These items were extracted from previous researchers (see in appendix, A). Items were measured on a five-point Likert-type scale ranging from “1= strongly disagree” to “5 = strongly agree”. The questionnaires for all the respondents were the same.

3.2. Subject of the Study

3.2.1 Source of Study Population

Those 13 private commercial banking industries that were actively worked in the industry in Ethiopia, Addis Ababa considered as the source of the population.

3.2.2 Target Population

The target population who participated in this research was: board of directors, bank audit committee, bank internal auditor directors, internal auditors division head, internal controllers, internal controllers division head and bank finance directors of the private commercial banking industries..

3.2.3 Study Units

The person who sat in the given positions in the selected private commercial banking industries and full file the inclusion criteria considered as a study unit.

3.2.4 Inclusion Criteria

The study inclusion criterion was that private commercial banking industries those experienced in business activities for five years and above from their establishment in the country as a business entities.

3.2.5 Exclusion Criteria

The study was excluding those government and private commercial banking industries. Due to time and financial constraints the researcher didn't consider government commercial banks and the private banks those their functional activities in the private commercial banking business sector were below the selected scope, i.e., the five and above service years.

3.2.6 Sampling

The respondents were purposively selected because they are responsible for strategic decisions at the corporate level and to contribute to the quality of financial statements due to the role and

responsibility they do have in the private commercial banking industries, and to review the report at its standards.

3.2.6.1 Sampling Frame

The sampling frame of this study was list of 13 private commercial banking industries of each of them has located in Addis Ababa City Administration.

3.2.6.2 Sample Size

The study employed statistical analysis of regressions and correlations modeling to test its hypotheses. The descriptive statistical model depends mainly on the sample size and it helps support the sufficient statistical power and precision of the parameter estimates.

Table 3.1 shows the details of how many sample size was taken from each private commercial banking industry depending on the proportion of the population from 13 private commercial banking industries. Selection of the population was purposive, i.e.; depending on the function or the role they have in the private banks.

Table 3.1 Sample taken from each Private commercial Banking Industry

s/n	Bank Name	Form BOD	From AC in BOD	IC Director & DH	IA Director & DH	Finance Head Director	Selected Sample size	Distributed Questionnaires	Collected Data
1	Awash Int'l Bank	2	2	2	2	1	9	9	9
2	Bank of Abyssinia	2	2	2	2	1	9	9	8
3	Dashen Bank	2	2	2	2	1	9	9	9
4	Wegagaen Bank	2	2	2	2	1	9	9	9
5	United Bank	2	2	2	2	1	9	9	8
6	Nib Int'l Bank	2	2	2	2	1	9	9	9
7	Coop. Bank O	2	2	2	2	1	9	9	9
8	Lion Int'l Bank	2	2	2	2	1	9	9	9
9	Oromia Int'l Bank	2	2	2	2	1	9	9	9
10	Bunna Int'l Bank	2	2	2	2	1	9	9	8
11	Zemen Bank	2	2	2	2	1	9	9	9
12	Abay Bank S.C.	2	2	2	2	1	9	9	9
13	Berhan Int'l Bank	2	2	2	2	1	9	9	8
Total		26	26	26	26	13	117	117	113

Remarks: Total questionnaire distributed = 117, Total collected = 113, Respondents, i.e., 3% of response error was committed.

3.2.7 Data Analysis Methods and Techniques

After the data was collected, the following activities on data processing have been carried out. The raw data was converted into suitable form for analysis and interpretation. This was achieved through sequences of activities including editing, coding, entry, and tabulation. The objectives were to check the completeness, internal consistency and appropriateness of the answers to each of the questions. Finally, an analysis progress was developed using Statistical Package for Social Science (SPSS) version 20.

As a preliminary data analysis, observed at the descriptive statistics method, which summarizes the scores of the variables concerned. Next, to examine relations between those variables were applied by the methods of correlation and regression analysis. More specifically, used regression analysis to explore factors affecting audit fee in the private commercial banking industries in light of board characteristic, audit committee, audit complexity, bank size, audit firm size, audit risk, and audit quality on audit fee. So correlation analysis is used to identify those factors affecting audit fees. As the study conducted by Simunic (1980) models audit fees as a function of size, audit risk, and complexity of the audit client. In a meta-analysis, Hay et al. (2006) show that these variables are consistently significant in a large number of studies reflecting different countries and different contexts. The factors affecting audit fees in private banking industries was tested using an audit fee model similar to the models used by Abbott et al., (2003) and Carcello et al., (2002):

Denoting the audit fee by $AudF$ and the regression models can be defined as:

$$AudF = \beta_0 + \beta_1 BOD + \beta_2 AuditComChar + \beta_3 AuditComp + \beta_4 BankSize + \beta_5 AuditFirmSize + \beta_6 AuditRisk + \beta_7 AuditDty + \varepsilon$$

Where $AudF =$ *Audit Fee*

BOD = Board of Directors

$AuditComChar$ = Audit Committee Characteristics

$AuditComp$ = Audit Complexity

AuditFirmSize = Audit firm size

BankSize = Bank size

AuditRisk = Audit Risk

AuditQty = Audit Quality

β_0 = the intercept or constant terms will be associated with the two regressions

β_1 , β_2 , β_3 , and β_4 = the regression coefficients

ε = the residual or error term.

The scores for each of these variables were based on the respondents those provided to survey questions.

In order to assess and describe how much of the variance in the criterion variable is explained by each of the predictor variables, as shown above we used regression model. Based on the output of the analysis of data collected referring to the research questions, average functional relationship between one criterion variable and more predictor variables were explored and uncovered. In this case, the criterion variables used in the model were factors affecting audit fee in private commercial banking industry in the country. Accordingly, mechanism for prediction or forecasting by showing relationship between average values of many predictor variables was provided. It was tested and detected how well a set of predictor variables is able to predict or explain the criterion variable. Besides, the status of predictor variables in predicting and explaining the criterion variable was addressed. The relative contributions of each of the predictor variables that make up the sub-models and the general model were evaluated. Consequently, the relative contribution of each of the predictor variables was determined and known with their statistical significance values in terms of individual predictor variables by working with one criterion variable and many predictor variables at once.

Then, the results are used to indicate and describe how well and how much each of the predictor variables is able to predict or explain the criterion variable and the unique variance each of them explains in criterion variable over and above the others included in the set. In this regression with multiple predictor variables, the beta (standardized) coefficient values were used to know how much of the criterion variable is expected to increase when a particular predictor variable increases by one standard deviation, holding all the other predictor variables constant. Thus, the higher the beta value, the greater the impact of the predictor variable on the criterion variable. In line with this, the different predictor variables were compared by looking at the standardized beta coefficients whose values for each of the predictor variables were converted to the same scale. Then, the contribution of each of the variables to increase or decrease the criterion variable was compared; therefore beta values were used (Pallant, 2007).

3.3. Variable

3.3.1 Dependent Variable

The dependent variable for this research study was audit fee. Audit fee is a fee that the company expected to pay to an external auditor for performing audit and assurance services. This type of fees is of interest to both auditors and their clients as it represents cost to companies as much as reputation of quality of audit services. Companies are required by law to have their accounts audited at reasonable fee without compromising on quality of audit.

3.3.2 Independent Variable

This study was focused on seven independent variables that might have an impact on audit fee in the Ethiopian private commercial banking industries. Those are:

- ☛ **Board Characteristics:** A board of directors is a body of elected or appointed members by shareholders; who jointly oversee the activities of a company or organization.
- ☛ **Audit Committee characteristics:** Audit committees play an important role in the governance surrounding the finalization of critical judgments, estimates and presentation affecting the accounts.
- ☛ **Bank size:** it is generally assumed that as the audit client/Auditee size increases the audit fee that the audit firm charge will also increase.

- ☛ **Audit complexity:** as audit client becomes more complex, more time and effort is needed to perform the external audit work.
- ☛ **Audit firms Size:** that larger audit firms provide a better quality audit than their smaller counterparties.
- ☛ **Audit risk:** Auditors perform a more extensive audit to obtain an appropriate level of assurance in response to higher risk and/or charge a premium for accepting higher risk (Bell et al., 2001).
- ☛ **Audit quality:** The existence of (excess/positive) client-specific quasi-rents creates an incentive for the auditor to compromise independence with respect to a specific client

3.4 Ethical Consideration

The research addresses all relevant ethical considerations such as the issues of privacy and transparency. Primarily, Addis Ababa University, College of Business and Economics Department of Accounting and Finance has issued a formal letter of cooperation for the concerned study area. Then, permission is obtained by the 13 private commercial banking industries chief managers officers. Data collection is carried out after getting permission from the head managers of private banks.

CHAPTER FOUR: RESULTS AND DISCUSSION

4.0 Introduction

The preceding chapter determined the way a researcher used to conduct an empirical analysis and discussion. The previous chapter also discussed the research design and methodology employed to achieve the objectives of the study and to test the research hypothesis there on. After collecting data by the questionnaire and from the annual financial statements of 13 private commercial banking industries, this chapter presents quantitative statistics in order to the study analyzes the collected data using various statistical tools and test hypotheses; then, presents the discussion, the result which in turn includes descriptive statistics, correlation analysis and the regression results accordingly. Specifically, this chapter is composed of 4 major sections. Section 4.1 tests of demographic characteristics of the sample, section 4.2 discusses about evaluation and analysis of each of the factors, section 4.3 deliberates regression analysis, and about findings of empirical results, section 4.4 elaborate correlation and regression analyses and section 4.5 which is part of section 4.2 but used secondary data analysis of bank size.

4.1. Demographic Characteristics of the Sample

This section presents the demographic characteristics of respondents on the assessment of factors affecting audit fee in private commercial banking industry sampled in Addis Ababa city administration that include: sex, experience, educational level, and position of respondents involved in the assessment.

4.1.1. Sex

Sex composition specifically equal participation of male and female in the governance structure of banking, finance, accounting and legal administration has paramount importance at all levels. Accordingly, the respondents' sex composition is presented in the table 4.1 below.

According to Bank Corporate Governance Directives No.SBB/62/2015 article 5(2), the board may preferably compose of directors who as a group provide a mixture of gender and core competencies such as banking, finance, accounting, legal, business admiration, auditing, information technology and investment management. However, table 4.1 below revealed that the number of male participated in private commercial banking industries are by far greater than the

number of females which is 88% and 12% respectively. This is may be due to work overloads and other gender related problems.

Table 4.1.Respondents by gender (N=113)

Gender	Frequency	Percent
Male	99	88
Female	14	12
Total	113	100.0

Source: Calculated from survey data, 2016

4.1.2. Experience

It is increasingly common today for people working in corporate banking to have technical qualifications that meet the new and advance of banking system. With the right experience, qualification and skill the individual progress to management roles of working in banking that helps to improve their careers. In view of that, the respondents’ working experience of private commercial banking industry sampled was presented in the table 4.2 below.

Following the requirements for persons with significant influence in a bank directives No SBB/54/2012 article 5 sub article 5.1.1, II, it clearly is stipulated that member of board of directors shall have adequate experience in business management, preferably in banking business and/or should take adequate training in banking business management after holding seat on the board and a director shall be a minimum of 30 years old. To this effect, table 4.2 below exhibited that 80% of the respondents have working experiences more than 10 years in business management of banking, while; the remaining 20% of respondents have experience less than 10 years.

Therefore, this fact clearly confirms that members of boards, directors and other audit committee members of private banking industry in the study area have adequate working experience and hopefully provides justifiable information for the analysis of the study. Subsequently, the directive also presented that age of board of directors has substantially more than 30 years old.

Table 4.2 Respondents by work experience (N=113)

<i>Experience</i>	<i>Frequency</i>	<i>Percent</i>
<i>Less than 5 years</i>	<i>3</i>	<i>3</i>
<i>6 to 10 years</i>	<i>19</i>	<i>17</i>
<i>11 to 15 years</i>	<i>22</i>	<i>20</i>
<i>16 to 20 years</i>	<i>38</i>	<i>34</i>
<i>over 20 years</i>	<i>29</i>	<i>26</i>
<i>Total</i>	<i>113</i>	<i>100.0</i>

Source: Calculated from survey data, 2016

4.1.3 Educational Profile

Unless the practical experience required in banking business management and the professional competency for the position are segments at the same time, meeting the goal of private commercial banking industries by the board members or directors of the bank become ambiguous. Accordingly, the educational status of the respondents in the study area was summarized in table 4.3 below.

The bank directives No SBB/54/2012 article 5 sub articles 5.1.1, 5.1.2 and 5.1.3 stipulate that member of board of directors; chief executive officers and senior executive officers shall hold a minimum of first degree from the recognized higher learning institutions. On top of this, table 4.3 below indicates that 97% of the respondents, which are composed of boards, audit committees, internal controllers, internal auditors, finance head of the banks and others holds first degree and above and the remaining 3% of respondents holds diploma level. Therefore, this confirms that the members of the boards, directors and other audit committee members of private banking industry in the study area holds adequate educational status and all being well provides permissible information for the analysis of the study. The educational status of respondents also assessed in terms of their position in the banking industry. Consequently, the data has shown that of the total number of respondents, more than 96% of them hold educational status of BA and above.

Table 4.3 Respondent's Educational Profiles

Educational Profile	Frequency	Percent
Diploma	3	3
BA	84	75
MA/MSc	19	17
PHD	6	5
Total	113	100.0

Source: Calculated from survey data, 2016

4.2. Reliability Analysis

To measure the consistency of the questionnaire particularly the Likert-type scale the reliability analysis is essential in reflecting the overall reliability of constructs that it is measuring. To carry out the reliability analysis, Cronbach's Alpha (α) is the most common measure of scale reliability and a value greater than 0.700 is very acceptable (Field, 2009; Cohen and Sayag, 2010) and according to Cronbach's (1951), a reliability value (α) greater than 0.600 is also acceptable.

Table 4.3 Reliability Statistics

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.684	.934	73

Sources: survey data, 2016 SPSS output

From table 4.3 above, the value for Cronbach's Alpha (α) was 0.684 for all variables. When these calculated reliability values are close to 0.7000, and compared with the minimum value of alpha 0.600 advocated by Cronbach's (1951), then the responses generated for all of the variables used in this research were 0.934 which was very strong and reliable enough for data analysis.

4.3. Evaluation and Analysis of each of the Factors

In order to answer the above issued hypothetical questions, the standard regression analysis output result was used. The sub-dimensions included were board characteristics, audit committee characteristics, audit complexity, audit risk, audit firm size and audit quality. To avoid an excessive number of variability and unstable estimates in the subsequent model, only variables that have reached a p-value less than 0.10 are taken into consideration in the subsequent analyses.

4.3.1. Board Characteristics

It is apparent that the performance of a board is influenced by the characteristics of the board. As different alternative view revealed, the more independent board is concerned with effectively discharging its governance role, thereby increasing pressures to enhance the external audit function to complement their role. Accordingly, the following explanatory variables were identified and assessed the board characteristics particularly in terms of its independence.

From the analysis output in Table 4.4, first the column labeled “beta” under standardized coefficients was looked in and the values were identified. Then, the largest of all values disregarding any negative signs out of the front were detected. In this case, the first three largest beta coefficient values represent the board assessments of performance and quality of governance, the board’s professional diversity, the board uses the induction process, director reviews and gap analysis, the board takes to promote a cohesive board team for new board appointments, board of directors has any impact over the audit fee and independent and diligent board members always concern for higher audit quality services. These three predictor variables have also shown statistical significance values less than 0.10. This really means that the three predictor variables are the only variable that makes the strongest and unique contribution in explaining and predicting the criterion variable from the sub-section, when the variances explained by all other variables are controlled and contributed higher influence on the dependent variables. Moreover, the qualitative data compiled from the field survey also confirm that the board’s professional diversity and quality governance structure have substantial impacts on audit fee in the private commercial banking industry in the country.

Table 4.4 Board Characteristics to affect audit fee in Ethiopian private banking industry (N=113)

Model	Standardized Coefficients (Beta)	T	Sig.
(Constant)		11.877	.000
Board independence	.158	1.595	.114
The board evaluation and reviews of the performance of members, and other bodies	-.195	-1.380	.171
The board assessments of performance and quality of governance.	-.303	-2.301	.023*
The board's professional diversity	.406	2.612	.010*
The board reviews the skills, knowledge and experience gap of directors	-.092	-.584	.561
The board uses the induction process, director reviews and gap analysis	-.222	-1.678	.097*
The board takes to promote a cohesive board team for new board appointments.	-.244	-1.770	.080*
Board of directors has any impact over the audit fee.	.391	3.789	.000*
Audit fee charged to the riskier Bank Sectors than less risker banks	.029	.260	.795
The board of director's at private banks have high level of independence	-.107	-1.077	.284
Independent and diligent board members always concern for higher audit quality services	-.164	-1.696	.093*

* Significance with 0.10 level of confidence

Dependent Variable: Audit Fee

Source: Calculated from field survey data, 2016

4.3.2. Audit Committee Characteristics

One of the foremost functions of the audit committee is to review the financial data of the company on continuous basis and strengthen internal accounting controls, in order to enhance reliability and integrity of financial reporting. With this intent, the characteristics of audit committee was assessed taking about sixteen explanatory variables related to audit fee and the results was summarized as the Table 4.5 indicated.

As can be seen from the analysis output in Table 4.5, first the column labeled "beta" under standardized coefficients was looked in and the values were identified. In this case, the first five largest beta coefficient values represent the effectiveness of internal controls and risk management processes reviewed, the appointment and removal of external auditors are always recommended, the functions of the internal audit unit are overseen strength of audit committee is significantly associated with the quality of internal controls and financial reports and independency of audit committee contributing in assessing internal controls and compliance processes. These five predictor variables have also shown statistical significance with a 0.10 level of confidence. This really means that the five predictor variables are the only variable that makes the strongest and unique contribution in explaining and predicting the criterion variable from the sub-section, when the variances explained by all other variables are controlled and

contributed higher influence on the dependent variables. Moreover, the qualitative data compiled from the field survey also confirm that the audit committee characteristics have considerable influences on audit fee in the private commercial banking industry.

Table 4. 5 Audit Committee Characteristics to affect audit fee in Ethiopian private banking industry (N=113)

Model	Standardized Coefficients (Beta)	T	Sig.
(Constant)		4.862	.000
The scope of the internal audit program has usually been reviewed and follow ups on actions taken by the management	.103	1.102	.274
The effectiveness of internal controls and risk management processes are reviewed.	.214	2.180	.032*
The compliance to the policies & rules of the company are always checked.	-.070	-.605	.547
The audit findings are being managed and regularly reviewed.	-.102	-.760	.450
The external auditor's management and responses are always reviewed.	-.146	-1.290	.201
The objectivity, performance and independence of external auditors are assessed	.107	.826	.412
The appointment and removal of external auditors are always recommended.	-.256	-2.306	.024*
The Appointment, setting of compensation, evaluation of performance of the Chief Internal Auditor under gone.	-.172	-1.502	.137
The functions of the internal audit unit are overseen	-.271	-2.306	.024*
The fairness and transparent of reporting the financial accounts are ensured.	.112	.851	.397
All related party transactions are reviewed and informed to the board.	.173	1.449	.151
Independent audit committees protect their reputation and avoiding potential litigation	.020	.114	.910
high independence of audit committee in the private banking sectors	.193	1.464	.147
Audit committees have been protected their reputation and avoiding potential litigation.	-.066	-.476	.635
Strength of audit committee is significantly associated with the quality of internal controls and financial reports	-.360	-2.658	.010*
Independency of audit committee contributing in assessing internal controls and compliance processes.	.261	2.571	.012*

* Significance with 0.10 level of confidence

Dependent Variable: Audit Fee

Source: Calculated from field survey data, 2016

4.3.3. Audit Complexity

Client business complexities usually considered in audit fee research on the ground that companies having complexity in their operation require more audit effort/time and the audit fee for such companies is also expected to increase accordingly (Tamrat Afesha, 2014). Besides, most literatures confirm that as audit complexity increases, the auditor would need to spend more

audit hours and allocate higher level of expertise to the engagement, thus resulting in higher audit fees. Regarding with this consideration, the study also takes audit complexity as one most important determinant factors of audit fee and the result were summarized in the table below (Table 4.6).

As can be seen from the analysis output, the results revealed that two independent variables such as if audit complexity increases, audit firms tend to charge higher audit fees because the auditor needs to spend more audit hours and allocate higher to expertise thus resulting higher audit fees are the only variables that have significant effect (at 10% significant level) on Audit fee. Therefore, those two predictor variables are the only variable that makes the strongest and unique contribution in explaining the criterion variable.

Table 4. 6 *Audit complexly affect audit fee in Ethiopian private commercial banking industry (N=113)*

Model	Standardized Coefficients Beta	T	Sig.
(Constant)		7.929	.000
If audit complexity increases, audit firms tend to charge higher audit fees.	-.253	-2.152	.034*
Audit fees increase as the number of subsidiaries increases	.067	.621	.536
If audit complexity increases, the auditor needs to spend more audit hours and allocate higher to expertise thus resulting higher audit fees.	-.288	-3.094	.003*
The audit of foreign subsidiaries is usually more complex in accounting treatments, and legal, cultural and linguistic challenges.	-.079	-.866	.388
Complexity in terms of scope of operation or balance sheets composition has a significant impact on the level of the audit fee.	.002	.020	.984

* *Significance with 0.10 level of confidence*

Dependent Variable: *Audit Fee*

Source: Calculated from field survey data, 2016

4.3.4. Audit Risk

According to Rohami Shafie, (2007) audit risks have a significantly positive relationship with audit fees due to the fact that the auditors need to do more work to eliminate any potential litigation against the auditors. Moreover, others scholars confirmed the positive relationship between audit risks and audit fees. Based on this notion, the table below summarizes the result of factors that affects risk and how the risk also potentially affects the audit fee.

As the table 4.7, shows that the two independent variables: non-performing loans are expected to demand greater audit effort and charged high audit cost due to the different banking institution

and the audit risk peculiar to it is not the same with other industrial organization are the only variables that have significant effect (at 10% significant level) on Audit fee. In fact as the result elaborated that the two predictor variables are the only variable that makes the strongest and unique contribution in explaining and predicting the criterion variable from the sub-section.

Table 4.7 *Audit risk affect audit fee in Ethiopian private commercial banking industry (N=113)*

Model	Standardized Coefficients Beta	T	Sig.
(Constant)		5.882	.000
Auditors perform a more audit to obtain a reasonable level of assurance to higher risk	-.090	-.854	.395
Bank with low profitability are more likely to engage in questionable accounting practices as they seek to cover-up their poor operating performance thus charge higher audit fees.	.001	.008	.993
A significant portion of assets needs audit procedures to verify it more time-consuming, costly and involve higher levels of professional judgment.	-.167	1.316	.191
Non-performing loans are expected to demand greater audit effort and charged high audit cost.	-.208	1.798	.075*
Higher risk audit service would result in increase in fee charge by the auditor to militate against such risk.	.121	1.062	.291
Due to the different Banking institution , the audit risk peculiar to it is not the same with other industrial organization	.168	1.751	.083*
The broad group of risks faced by bank is capital, credit and liquidity risks.	.049	.462	.645

* *Significance with 0.10 level of confidence*

Dependent Variable: *Audit Fee*

Source: Calculated from field survey data, 2016

4.3.5. Audit Firms Size

Many statistical regression analysis of research results showed that firm size and audit fees are significantly and positively related. Following this hypothesis, first sub - factors for audit firm size was identified and assessed on the table below.

As the table 4.8 indicated, among eight sub - factors identified to assess their relationship with audit fee, three of the independent variables, there is positive relationship between the audit firm size and audit fees charged, the absence of the Big audit firms in Ethiopia affect audit fees to provide higher quality audit and the absence of strong audit firms association in Ethiopia resulted to low audit fees, have significant effect on a 10% of level of confidence. However, remaining five variables do not have a statistically significant effect on Audit fee. From this we deduce that those three predictor variables are the only variables which make the strongest and unique contribution in explaining and predicting the criterion variable audit fee.

Table 4.8 Audit Firm Size affect audit fee in Ethiopian private commercial banking industry (N=113)

Model	Standardized Coefficients Beta	T	Sig.
(Constant)		7.516	.000
There is positive relationship between the audit firm size and audit fees charged	.328	3.187	.002
The Auditor Size is regularly measured based on the company's assets, market share and the number of employees.	.134	.949	.345
The professional experience of the audit firm can be considered as an important attribute to affect the amount of audit fees	.013	.100	.921
The audit office reputation is the perception affecting the audit service pricing to audit firms can provide higher quality auditing.	-.100	-.953	.343
An increase in the number of Audit firms lead to a significant decrease in real audit fees	.061	.649	.518
The absence of the Big audit firms in Ethiopia affect audit fees to provide higher quality audit.	-.452	-4.059	.000
The absence of strong audit firms association in Ethiopia resulted to low audit fees	-.188	-1.858	.066
The existence of association of audit firms in Ethiopia resulted to strong professional and fair audit fees.	-.138	-1.397	.165

* Significance with 0.10 level of confidence

Dependent Variable: Audit Fee

Source: Calculated from field survey data, 2016

4.3.6. Audit Quality

According to Husam Al-Khaddash, Rana Al Nawas and Abdulhadi Ramadan (2013), increasing auditing efficiency leads to increase auditing quality. So, auditors should have degree in his/her specialty field, and a necessary work experience will effect on his/her efficiency, and strong knowledge and familiarity with the regulations, instructions and standers which relating to the accounting and auditing position will benefit the auditor in his work. On the other hand, the training and developing the skills of the auditor during participate in programs, and to know the development technical way to discover the fraud and counterfeit, and trying to get professional certificates like CPA, ACCA, etc all of that will enable them to improve their quality of work. To this end, the table below shows the summary of factors related to audit quality and that in term shows a relationship to the audit fee.

Based on this analytical result shown in table 4.9, out of the nine sub - factors identified to assess their relationship with audit fee, the result indicates that the four independent variables, i.e., audit quality is fundamental and corporate governance should have full confidence in the auditor work, auditor's ability to be unbiased in disclosing financial reporting problems, free

access to all records, producers, and personnel relevant to the audit and the auditor maintains independence always in appearance have a significant effect under a 10% level of significance.

Table 4.9 *Audit Quality affect audit fee in Ethiopian private commercial banking industry (N=113)*

Model	Standardized Coefficients (Beta)	T	Sig.
(Constant)		5.631	.000
Audit quality is fundamental and corporate governance should have full confidence in the auditor work.	.326	3.048	.003*
Auditor’s ability to be objective in disclosing a financial reporting problem	.093	.947	.346
Auditor’s ability to be unbiased in disclosing financial reporting problems.	-.280	-2.057	.042*
Freedom from managerial interference with the audit program.	.097	.612	.542
Free access to all records, producers, and personnel relevant to the audit.	-.291	-1.834	.070*
Active co-operation from management personnel during the audit examination.	-.069	-.701	.485
Freedom from personal interests on the part of the auditor leading to exclusions from or limitations on the audit examination.	.023	.197	.844
The auditor maintains independence always in fact.	.151	1.533	.128
The auditor maintains independence always in appearance.	-.197	-1.771	.080*

* *Significance with 0.10 level of confidence*

Dependent Variable: *Audit Fee*

Source: Calculated from field survey data, 2016

4.3 Analysis and Evaluation of the Sub-dimensions of Explanatory Variables as a whole

In order to assess and describe how much of the variance in the criterion variable is explained by each of the sub-dimensions of explanatory variables as a whole which includes all significant predictor variables and part of the standard multiple regression analysis output was used. Therefore, Table 4.10 shows the total variance in the criterion variable which are explained and predicted by the explanatory variables of the six sub-dimensions and the general model as a whole the variables are which statistically significant difference in the values of the sub-models.

As a result all the inclusive explanatory variables related to board characteristics, audit committee, audit complexity, audit risk, audit firm size and audit quality significantly explain and predict the dependent variable (audit fee). Hence, of the total variance in the criterion variables, 22 of them, were uniquely predicted and explained by these predictor variables.

Table 4.10: Standardized Coefficient, t-test and Sig. values of sub-explanatory variables (N=113)

No	Model	Standardized Coefficient Beta	T	Sig
1	The board assessments of performance and quality of governance.	-.303	-2.301	.023
2	The board's professional diversity	.406	2.612	.010
3	The board uses the induction process, director reviews and gap analysis	-.222	-1.678	.097
4	The board takes to promote a cohesive board team for new board appointments.	-.244	-1.770	.080
5	Board of directors has any impact over the audit fee.	.391	3.789	.000
6	Independent and diligent board members always concern for higher audit quality services	-.164	-1.696	.093
7	The effectiveness of internal controls and risk management processes are reviewed.	.214	2.180	.032
8	The appointment and removal of external auditors are always recommended.	-.256	-2.306	.024
9	The functions of the Internal Audit Unit are overseen	-.271	-2.306	.024
10	Strength of audit committee is significantly associated with the quality of internal controls and financial reports	-.360	-2.658	.010
11	Independency of audit committee contributing in assessing internal controls and compliance processes	.261	2.571	.012
12	If audit complexity increases, audit firms tend to charge higher audit fees.	-.253	-2.152	.034
13	If audit complexity increases, the auditor needs to spend more audit hours and allocate higher to expertise thus resulting higher audit fees.	-.288	-3.094	.003
14	Non-performing loans are expected to demand greater audit effort and charged high audit cost	-.208	-1.798	.075
15	Due to the different Banking institution , the audit risk peculiar to it is not the same with other industrial organization	.168	1.751	.083
16	There is positive relationship between the audit firm size and audit fees charged	.328	3.187	.002
17	The absence of the Big-Four audit firms in Ethiopia affect audit fees to provide higher quality audit	-.452	-4.059	.000
18	The absence of strong audit firms association in Ethiopia resulted to low audit fees	-.188	-1.858	.066
19	Audit quality is fundamental and corporate governance should have full confidence in the auditor work	.326	3.048	.003
20	Auditor's ability to be unbiased in disclosing financial reporting problems	-.280	-2.057	.042
21	Free access to all records, producers, and personnel relevant to the audit	-.291	-1.834	.070
22	The auditor maintains independence always in appearance	-.197	-1.771	.080

* Significance with 0.10 level of confidence

Dependent Variable: Audit Fee

Source: Calculated from field survey data, 2016

4.4 Correlation and Regression Analysis

4.4.1 Correlation Analysis Results to Factors Affecting of Audit Fee

Table 4.11 reviles the degree of correlation among the six major independent variables with dependent variable. As the analysis results proved that except audit complexity, audit risk and audit firm size the other three independent variables, i.e., board characteristics ($r = -.224$, $p < 0.05$), audit committee characteristics ($r = -.355^{**}$, $p < .01$), and audit quality ($r = -.367^{**}$, $p <$

0.01) are significant and inversely associated with audit fee. Contrary, audit complexity ($r = 0.144$, $p < 0.10$), audit risk ($r = .205^*$, $p < 0.05$), audit firm size ($r = .303^{**}$, $p < 0.05$), are positively correlated with the dependent variable (audit fee).

Table 4.11, above portrays the degree of correlation between the independent and dependent variable. According to the correlation results, except the three variables (board characteristics, audit committee characteristics and audit quality), all other three explanatory variables shows positive relationship with the dependent variable (audit fee). Regarding the three independent variables; board characteristics, audit committee characteristics and the audit quality, they are negatively related to the dependent variable audit fee. The reason is that the higher the internal board characteristics, internal audit committee and overall internal audit committee quality, the lower their audit fee expense. On the other hand, audit complexity, audit risk and audit firm sizes have a significant positive impact on the audit fee. That means, the higher the audit complexity, audit risk and audit firm size, the higher in audit fee expenditure in the private banking of the study area.

Moreover, the result also reported the presence of multicollinearity between the explanatory variables. The highest significant positive correlation is registered between board characteristics and audit committee characteristics with ($r = 0.719$, $p < 0.05$) followed by board characteristics and audit quality ($r = 0.683$, $p < 0.05$) and audit committee characteristics and audit quality ($r = 0.581$, $p < 0.05$). This suggests that internal composition of board characteristics and their professional diversity helps to increase audit committee characters and professional quality. In the same way competent and well trained board have positive influence on the quality of internal auditors which in turn influence on the annual audit fee expense. Moreover, the correlation between each variable with itself in main diagonal is always 1, because those variables have a perfect positive correlation with themselves.

Generally, correlation within ± 0.21 to ± 0.40 is considered as small but a correlation coefficient within ± 0.41 to ± 0.70 is considered as moderate as cited by Hair et al., (2007). Accordingly, the correlation between some independent variables is strong and/or moderate while the correlation between audit fee and the other independent variables are categorized in the range of small. It is important to note that significant correlation among explanatory variables may pose a sever

multicollinearity problem in the multivariate analysis. Therefore, need to tests to examine the severity of the multicollinearity problem. As Firth (1997) and Naser et al (2007) cited in Tamrat Afesha, (2014) suggested correlations below 0.80 in absolute value do not pose sever multicollinearity problem. Hence, the correlation result indicates that there is no multicollinearity problem.

Table 4.11, Degree of correlation

		Correlations						
		Board Character	Audit Committee Character	Audit Complexity	Audit Risk	Audit Firm Size	Audit Quality	Audit Fee
Board Characteristics	Pearson Correlation	1	.719**	.148	.168	.288**	.683**	-.224*
	Sig. (2-tailed)		.000	.120	.077	.002	.000	.018
Audit Committee Characteristics	Pearson Correlation	.719**	1	.156	.091	.191*	.581**	-.355**
	Sig. (2-tailed)	.000		.101	.341	.044	.000	.000
Audit Complexity	Pearson Correlation	.148	.156	1	.097	.330**	-.073	.144
	Sig. (2-tailed)	.120	.101		.311	.000	.444	.130
Audit Risk	Pearson Correlation	.168	.091	.097	1	.481**	.371**	.205*
	Sig. (2-tailed)	.077	.341	.311		.000	.000	.030
Audit Firm Size	Pearson Correlation	.288**	.191*	.330**	.481**	1	.381**	.303**
	Sig. (2-tailed)	.002	.044	.000	.000		.000	.001
Audit Quality	Pearson Correlation	.683**	.581**	-.073	.371**	.381**	1	-.367**
	Sig. (2-tailed)	.000	.000	.444	.000	.000		.000
Audit Fee	Pearson Correlation	-.224*	-.355**	.144	.205*	.303**	-.367**	1
	Sig. (2-tailed)	.018	.000	.130	.030	.001	.000	

** . Correlation is significant at the 0.01 level (2-tailed).

* . Correlation is significant at the 0.05 level (2-tailed).

Dependent Variable: *Audit Fee*

Source: Calculated from field survey data, 2016

4.4.2 Regression Results for the Major Factors of Audit Fee

In the regression model the researcher specified linear regression to analysis the influence of factors that affect up on the dependent variables (banks annual audit fees)taking the major bank level factors and other attributes. The audit fees as dependent variables are regressed by factors that affects i.e. board characteristics, audit committee characteristics, audit complexity, audit risk, audit firm size and audit quality and the linear regression results was depicted in the table below.

The Standardized Beta Coefficients was conducted to measure the contribution of each independent variable to the dependent variable in the model. Accordingly, it is assumed that the higher the beta value of the independent variables, the higher the significant changes in dependent variables. It is because high beta value will result in higher changes in dependent variable audit fee. To this effect, it can be seen from table 4.12 below; audit committee characteristics, audit firm size and audit quality are statistically significant factors that influence the determination of audit fees in the private commercial banking industries in the study area and significant at 5% level except the board characteristics which are statistically significant at 10% significance level. Contrary to this, audit risk remains insignificant at any conventional level. Furthermore, it is also worth noting from the result that agreeing to the expected negative coefficient sign, i.e., board characteristics, audit committee characteristics and the audit quality were reported negative sign. The reason is that the higher the internal board characteristics, internal audit committee and overall internal audit committee quality, the lower their audit fee expense. Contrary to this, audit complexity, audit risk and audit firm sizes have a significant positive impact on the audit fee. That means, the higher the audit complexity, audit risk and audit firm size, the higher in audit fee expenditure in the private commercial banking industries of the study area. The below tabular result shown that the standardized beta coefficients of all independent variables are lower than 1. The independent variable which has the highest beta value is audit committee characteristics (0.362), followed by board characteristics and audit quality which is (0.275), (0.258) respectively.

From the analysis result, the audit committee characteristics is highly significant at less than 1% confidence level (coefficient -0.362 and t-static 2.879). The significant size coefficient can be interpreted as a 1% change in the audit committee characteristics followed by 36.20% change in audit fees. This result is consistent with various prior empirical studies recurring finding of a negative relationship between the audit committee characteristics and audit fees, both in financial and non-financial sectors. Generally, the negative and significant relationship between audit committee characteristics and audit fees in the result leads to reject the first hypothesis, i.e., audit committee characteristics has no significant relationship with audit fees.

Similarly, as the analysis result elaborated, the audit firm size and audit quality are the next highly significant at less than 5% level (p-value 0.047) with (coefficient 0.203 and t-static -

2.011) and (p-value 0.048) with (coefficient -0.258 and t-static -2.011) respectively. The significant size coefficient can be interpreted as a 1% change in the audit firm size and audit quality followed by 20.3% and 25.8% change in audit fees respectively. In general, the changes and significant relationship between audit firm size and audit quality and audit fees in the result leads to reject the first hypothesis, i.e. the hypothesis audit firm size and audit quality have no significant relationship with audit fees. The analysis also confirms that board characteristics is significantly related with audit fee at 10% significance level with (p-value 0.052) with (coefficient -0.275 and t-static 1.966). The significant size coefficient can be interpreted as a 1% change in the board characteristics, the audit fee of the private banking inversely changes by 27.5%. The negative relationship of board characteristics with audit fee confirms that as the board composition and competency are incenses in the bank, the annual budget allocated for audit fee expense will decreases.

In addition, the model gives a conclusion that there is significant relationship among all factors that affects and the audit fee except audit risk and the finding is almost consistent with the result of other researches particularly the relationship between board characteristics and audit fee like; Taleb Tabar (2012) cited in Dr. Hassan Madrakian (2014), but it has not been consistent with the results of study by Leventis, S .and P. E .Dimitro poulous (2010).

To sum up with results and discussion, factors affecting audit fee in private commercial banking industries of Ethiopia tend to value the board characteristics specifically in terms of professional diversity and independent for higher reasonable audit assurance services and its audit committee characteristics, audit firm size and the quality of internal auditors. Among the variables considered important by regulators (i.e. CAMEL ratios), only audit complexity and audit risk found to be insignificant. Moreover, the result of finding shows that audit quality is fundamental and overall corporate governance helps to have full confidence in the internal auditor work results in decreasing of audit fee expenditure.

Table 4.12 Regression result for the factors of audit fees

Model	Standardized Coefficients	T	Sig.
	Beta		
(Constant)		14.158	.000
Board Characteristics	-.275	1.966	.052
Audit Committee Characteristics	-.362	-2.879	.005
Audit Risk	.025	-.244	.808
Audit Firm Size	.203	-2.011	.047
Audit Quality	-.258	-2.004	.048

Dependent Variable: Audit Fee

Source: Summary

4.5 Analysis of Bank Size

This section of the analysis tried to answer the research question " How bank size affects audit fees?" In line with prior studies (both industrial and financial firms), the size of the bank is highly significant at less than 1% level of significance. Auditing firms demand higher fee from larger Bank Sectors because of their complexity and more hours of work relative to small Bank Sectors. Audit service provided by external auditors are depending on the size of the client increases; the higher the population for which the total assets and revenue are composed, and sample size required to achieve a given level of control will increase at decrease rate as discussed earlier in the lecture review.

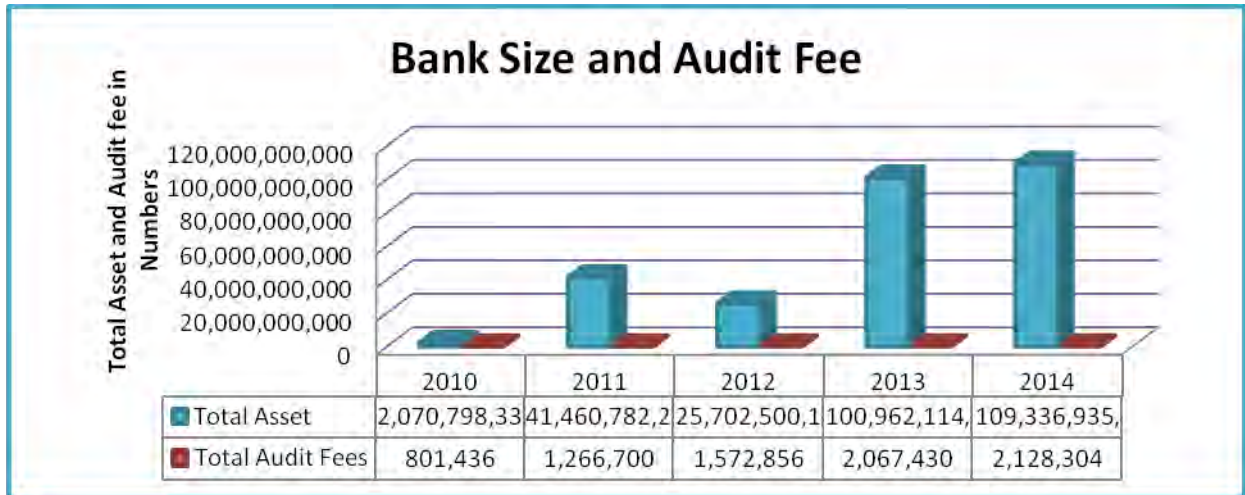
As researches conducted by Simunic (1980), O'Keefe et al., (1994), Gonthier-Besacier and Schatt, (2007), and Caneghem (2010) find significant positive relationship between firm size and audit fees in non-financial sectors. This size effect reasoned to affect audit fees through various attributes related to complexities and risk associated with large size firms. Bank audit literature demonstrates the same effect of bank size. And it was also reported the client size by itself explains over 70% variances in audit fees. It is also argued that Banks size reflects its effect on fees through direct and indirect way, since various bank characteristics are correlated with size.

As shown below in the graphical presentation with table 4.13, bank size and audit fees analyze using total asset verse audit fees from the annual audited financial statements of private commercial banks of 5 years from (2010/11 to 2014/15) indicates that as total assets of the banks increases with audit fees.

Moreover, the result indicated as the asset of the private commercial banking industries S.C increases the audit fees or cost of audit of financial statements are become also escalating up. It implies that the cost of audit affected by the size of client entities total assets, i.e., the increase of total assets of the private commercial banking industries were affect the audit fees; meaning that audit fees also should be increased. Therefore, bank size and audit fees have positive relationships.

The present study empirically confirmed that the increase of assets effects on audit fee in Ethiopian private commercial banking industries is direct. Since it was investigated that from 13 private banks five years annual financial statements 65 (13x5) which was collected 54 to rate to 83%. As the annual financial report result indicates, the asset of private commercial banking industries increases the expenditure (cost) of audit fees as well increases. In that regard it can be deduced that bank size or client size of the private commercial banking industries proportionally affect the cost of audit fees.

Table 4.13 Bank Size and Audit Fee Analyzes of 13 Private Banks



CHAPTER FIVE: CONCLUSION AND RECOMMENDATION

5.1. Introduction

The previous chapter presents data analysis based on empirical findings. Accordingly, this chapter presents conclusion of the results, recommendations forwarded, research contributions and lastly direction for future research.

5.2. Conclusion of the Results

Based on the empirical findings of the study this research study assesses factors that affects audit fee in the Ethiopian private commercial banking industry. The study used BOD, audit committee, audit complexity, bank size, audit firm size, audit risk and audit quality variables which is peculiar to the private commercial banking industry that are commonly found to influence the variation in audit fees.

Audit fee is a fee that company is expected to pay to an external auditor for performing audit and assurance services. This type of fees is of interest to both auditors and their clients as it represent cost to companies as much as reputation of quality of audit services. Companies are required by law to have their accounts audited at reasonable fee without compromising on quality of audit. On the other side, auditors are expected to receive adequate fees for their services to maintain the services required at a satisfactory level. Based on this notion, this study assesses factors affecting audit fees in the private commercial banking industries of Ethiopia. The study used board characteristics, audit committee characteristics, audit complexity, bank size, audit firm size, audit risk, and audit quality among these board characteristics, the audit committee characteristics and audit quality as peculiar variables to the private commercial banking industry and other variables that are commonly found to influence the variation in audit fees. Based on the analysis made in the previous chapter, the study concludes the following points:

With regard to factors that affecting audit fees; all board characteristics, audit committee characteristics, audit quality, audit firm size and audit risk are found to be the major factors influencing the variation in audit fees in the Ethiopian private commercial banking industries. Typically, board and audit committee characteristics and audit qualities are inversely related to audit fee. In addition, the audit risk, audit complexity and audit firm sizes are directly related

with the audit fee in the study area. The reason is that, as since liquid assets include currency and coins and cashes associated with ATM operation, which also require more audit effort to count and confirm their balance, then the complexity is increasing so that increases request for higher audit fee.

On the other side, the result confirms that with the relatively high proportion of independent as well as more professional diversity in the boards and audit committees, would enhance the objectivity, reliability and transparency of the financial reporting and disclosures; which in turn would strengthen internal performance of the bank that helps to minimize budget required for audit fee of the private commercial banking industries. Similarly, the auditors' professional independence which enhances the objectivity in disclosing the financial reporting problems, freedom from managerial interference with the audit program and free access to all records, producers, and personnel relevant to the audit increases the audit quality and correlated negatively with audit fee expenses.

5.3. Recommendation

This research examines those factors affecting between board characteristics, audit committee characteristics, audit complexity, audit risk, audit firm size and audit quality which affects the amount of audit fees among listed private commercial banking industry in the study area. The findings presented in the study indicated that the independent variables (board characteristics, audit committee characterize, audit complexity, bank size, audit risk, audit firm size and audit quality) have a significant relationship to the dependent variable (audit fees). Based on the results of the study, practitioners such as private banking or bank industry, audit firms as well as regulatory bodies are able to obtain several implications.

Hence, Private commercial banking industries are advised to focus on those factors deemed to have significantly associated with audit fees. By understanding how these independent variables affect audit fees among private commercial banking industries, other related companies can gain more insights on what they are paying for and whether the audit fees are priced at an acceptable level. Moreover, the findings of this study provide a better understanding of how audit committee characteristics, board composition and audit quality could affect audit fees as it will influence the internal governance and internal auditors to adequately evaluate the audit that helps

to consider those factors affecting expenses on audit fee. In terms of audit complexity, large companies are more likely to have greater transactions and balances and require more audit services than smaller companies and thus resulting in higher level of audit fees charged. Therefore, this result recommends that auditors should focus on factors which are more likely to raise audit hours and hence effort.

Moreover, **audit risk** is found to be associated with audit fees. Audit risk is an indicator of material misstatements due to higher potential of company-wide internal control weaknesses. Thus, the audit procedure is expected to incorporate various risk factors in order to minimize auditor's risk. These **audit efforts are assumed to reflect the level of audit fees** which consequently leads to stakeholders who perceive that the higher audit fee charged by the auditor is the riskier to the client.

Therefore, the private commercial banking industries are **advised to concern with the level of risk by strengthening the internal control of the company in order to reduce the audit risk** perceived by the auditors. Further the researcher recommends regulators such as NBE to reconsider how the audit fees for private commercial banking industries should be determined. Lower fee by itself would not allow auditors to conduct good quality audit. Therefore, lower fee levels triggered by the stiff competition in the audit market are likely to end up with lower quality standard audits.

5.4. Direction for Future Research

This research provides further implications for researchers by introducing the improved research model. It has extended research for those factors affecting audit fees in private commercial banking industries of Ethiopia by incorporating new variable which has significant relationship with audit fee has been shown in the findings of this study. Yet it is not possible to review audit fees without critically looking at other economic factors. Hence, this study serves as the basis for future researches with a better understanding of audit market in the country.

References

- Abbott, L.J., Parker, S., Peters, G. and Raghunandan, K. (2003), „the association between audit committee characteristics and audit fees“; *auditing: A Journal of Practice & Theory*, Vol. 22 No. 2, pp. 17-32.
- AICPA [American Institute of Certified Public Accountants] (1967), “Executive Committee Statement on Audit Committees of the Board of Directors”, *Journal of Accountancy*, (September), p. 10.
- AICPA. (2009). Audit risk and materiality in conducting an audit, statement on Auditing standards No.47, American institute of certified public accountants.
- Ahmad A.C., Shafie, R. and Mohamad Yusof, N. 2006, „The provision of non-audit services, audit fees and auditor independence“, *Asian academy of management journal of accounting and finance*, Vol. 2, No. 1, 21–40, accessed 30 May 2012, <<http://web.usm.my/journal/aamjaf/vol%202-1/2-1-2.pdf>>.
- Akinpelu, Y. A. O., Omojola, S.O., Ogunseye, T. O. and Bada O. T. 2013. "The Pricing of Audit Services in Nigeria Commercial Banks" *Research Journal of Finance and Accounting* ISSN 2222-2847, Vol.4, No.3, accessed on 29 April 2013 www.iiste.org
- Al-Harshani, M.O. 2008, „The pricing of audit services: Evidence from Kuwait“, *Managerial Auditing Journal*, Vol. 23 Iss: 7 pp. 685 – 696, accessed 3 October 2012, <<http://dx.doi.org/10.1108/02686900810890643>>.
- Anandarajan, A., Hasan. I., and McCarthy, C. 2005. "The Use of Loan Loss Provisions for Earnings, Capital Management and Signaling by Australian Banks"
- Antle, R. & Demski, J. (2006). Constructing frictions, regulation, and the structure of CPA firms.
- Barrett, P. (2002). Expectation, and Perception, of Better Practice Corporate Governance in the Public Sector from an Audit Perspective. Melbourne: CPA Australia's Government Business Symposium
- Beattie, V. and Fearnley, S. (1998) Audit market competition: auditor changes and the impact of tendering. *The British Accounting Review* 30(3):261-289.
- Bell, T.B., Landsman W.R. and Shackelford, D.A. 2001, „Auditors' Perceived Business Risk and Audit Fees: Analysis and Evidence“, *Journal of Accounting Research*, Vol. 39, No. 1, pp. 35-43, accessed 21 May 2012, <<http://www.jstor.org/stable/2672944>>.

- Boo, E., and Sharma D. (2008). "Effect of regulatory oversight on the association between internal governance characteristics and audit fees that auditors perceive lower risk" *Accounting and Finance* 48 (2008) 51–71, doi: 10.1111/j.1467-629x.2007.00229.x
- Boo, E., and Sharma D. 2008. "The association between corporate governance and audit fees of bank holding companies" *Corporate Governance VOL. 8 No. 1*, pp. 28-45. DOI 10.1108/14720700810853383. Accessed 10 July 2013, [Error! Hyperlink reference not valid.](#)
- Cadbury, A. (1992). *Committee on the Financial Aspects of Corporate Governance: Report with Code of Best Practice*. London: Gee Publishing.
- Caneghem, T.V. 2010, „Audit pricing and the Big4 fee premium: evidence from Belgium“, *Managerial Auditing Journal*, Vol. 25, Iss: 2 pp. 122 – 139, accessed 12 September 2012, <<http://dx.doi.org/10.1108/02686901011008945>>.
- Caramanis C., Spathis C., 2006, „Auditee and audit firm characteristics as determinants of audit qualifications: Evidence from the Athens stock exchange“, *Managerial Auditing Journal*, Vol. 21 Iss: 9, pp.905 – 920, accessed 13 November 2012, <<http://dx.doi.org/10.1108/02686900610705000>>.
- Carcello, J. and Neal, T. (2000), „Audit committee characteristics and auditor reporting“; *The Accounting Review*, Vol. 75 No. 4, pp. 453-67
- Chersan, I., Robu, I., Carp, M and Mironiuc, M. 2012. „A Circular Causality Analysis on the Determinants of the Audit Fees within the NYSE-Quoted Companies“, *Communications of the IBIMA*, Vol. 2012 (2012), Article ID 896676, 82 mini pages, accessed 17 February 2013, DOI:10.5171/2012.896676
- Christopher Ike Ogbechie (2012), key determinants of effective boards of directors- evidence from Nigeria , Brunel Business School Brunel University
- Choi, J., Kim, J and Zang, Y 2010. „Do Abnormally High Audit Fees Impair Audit Quality?“ *Auditing: A Journal of Practice & Theory*, American Accounting Association, Vol. 29, No. 2, pp. 115–140, accessed 4, March 2013, DOI: 10.2308/aud.2010.29.2.115
- Craswell, A., T. and Francis J., R 1999, „Pricing Initial Audit Engagements: A Test of Competing Theories“, *The Accounting Review* Vol. 74, No. 2, pp. 201-216, accessed 24 December 2012, < <http://www.jstor.org/stable/248581>> .

- Cronbach's, L. J. (1951), "Coefficient alpha and the internal structure of tests": *Psychometrika*, 16, pp.297–334.
- Cohen A. & Sayag, G. (2010), "the Effectiveness of Internal Auditing: An Empirical Examination of its Determinants in Israeli Organizations": *Australian Accounting Review*, 20(3), 296-307.
- Dart, E. 2009. „UK Investors“ Perceptions of Auditor Independence“ Working Papers in Accounting and Finance ISSN 1750-6638.
- Davis, L. R., Soo, B.& Trompeter, G. (2009). Auditor Tenure and the Ability to Meet or Beat Earnings Forecasts. *Contemporary Accounting Journal*, 26(2), 517–54.
- DeAngelo, L.E., 1981, „Auditor size and audit quality“, *Journal of Accounting and Economics*, Vol. 3, pp. 183-199, accessed 18 September 2012, <[Error! Hyperlink reference not valid.](#)>.
- Defond, M.L., Raghunandan, K. and Subramanyam, K. R. 2002. „Do Non-Audit Service Fees Impair Auditor Independence? Evidence from Going Concern Audit Opinions“, *Journal of Accounting Research*, Vol. 40, No. 4 accessed 13 December 2012, <<http://web.ebscohost.com/ehost/pdfviewer/pdfviewer?sid=84d33568-28dc-4a43-b023-3ed04bd50cf0%40sessionmgr11&vid=1&hid=27>>.
- Deloitte 2012. Banking regulatory environment and supervision in Africa, Deloitte on Africa Collection: Special Edition.
- Diamant, A., 2000, „Auditors“ Independence – A Comparison Between the 1998 FEE Recommendation and Swedish Law“ Uppsala University, sweden.
- Doogar.R., S. Rowe. And P. Sivadasan. 2012. Asleep at the wheel again? Bank audits during the financial crisis. Working Paper. University of Illinois at Urbana-Champaign.
- Dr. Hassan Madrakian2 2014; *study the relationship between audit fees, board independence and earnings quality in accepted companies in tehran stock exchange market; Kuwait Chapter of Arabian Journal of Business and Management Review Vol. 3, No.12a.*
- El-Gammal, W. 2012, „Determinants of Audit Fees: Evidence from Lebanon“, *International Business Research*, Vol. 5, No. 11, ISSN 1913-9004 E-ISSN 1913-9012, accessed 25 September 2012, <<http://dx.doi.org/10.5539/ibr.v5n11p136>>.

- Ettredge, M., Xu, Y. and Yi, H., 2011. "Fair Value Measurements and Audit Fees: Evidence from the Banking Industry". Working paper, The University of Kansas – School of Business and Korea University – Business School.
- Ethiopian Code of Ethics for Professional Accountants (OFAG 2009, p 47)
- Ethiopian Bank Corporate Governance Directives No.SBB/62/2015
- Fama, E., Jensen, M. (1983), Separation of ownership and control. *Journal of Law and Economics*, (5), 301-25
- Fields, L.P., Fraser, D.R., and Wilkins, M.S. 2004. "An investigation of the pricing of audit services for financial institutions" *Journal of Accounting and Public Policy* 23, 53–77.[doi:10.1016/j.jaccpubpol.2003.11.003](https://doi.org/10.1016/j.jaccpubpol.2003.11.003) Accessed on 28 October 2013 www.elsevier.com/locate/jaccpubpol.
- Field A. (2009), *Discovering statistics using SPSS, 3rd edition*, SAGE. Publication ltd.
- Firth, M. 1997. „The Provision of Non-audit Services and the Pricing of Audit fees“ *Journal of Business Finance & Accounting*, 24(3) & (4) accessed 27 October 2012, <<http://web.ebscohost.com/ehost/pdfviewer/pdfviewer?sid=3a9eb3b3-acef-4f1a-872b-8d159edbeb4c%40sessionmgr15&vid=1&hid=27>>.
- Firth, M. (2002). Auditor-Provided Consultancy Services and their Associations with Audit Fees and Audit Opinions. *JBFA Journal of Business Finance & Accounting*, 29(5-6), 661–693
- Francis, J.R. and Simon, D.T. 1987, „A Test of Audit Pricing in the Small-Client Segment of the U. S. Audit Market“, *The Accounting Review*, Vol. 62, No. 1, pp. 145-157, accessed 22 October 2012, <<http://www.jstor.org/stable/248051>>.
- Francis, J. R. (1984). The effect of audit firm size on audit prices: a study of the Australian market. *Journal of Accounting and Economics*, 6(2), 133-51. [http://dx.doi.org/10.1016/0165-4101\(84\)90010-7](http://dx.doi.org/10.1016/0165-4101(84)90010-7)
- Francis, J. R., & M. D. Yu. (2009). *The effect of Big 4 office size on audit quality. The Accounting Review*, 84 (5), 1521–52.
- Ferguson, A. Lennox, C., and Taylor, S. (2005). *Audit Fee Rigidities in the presence of Market Frictions: Evidence and Explanations*. Sydney: University of New South Wales.

- Gerrard, I., Houghton, K. and Woodliff, D 1994, „Audit Fees:: The Effects of Auditee, Auditor and Industry Differences“, *Managerial Auditing Journal*, Vol. 9, Iss: 7, pp. 3 – 11 accessed 19 October 2012, <<http://dx.doi.org/10.1108/02686909410067534>>.
- Ghosh, A., Kallapur, S., and Moon, D. 2006. „Audit and Non-audit Fees and Capital Market Perceptions of Auditor Independence „Research Paper Series, Centre for Analytical Finance, Indian School of Business, Research Paper No: O3-O6.
- Green Paper, 2010. *Audit Policy: Lesson from the Crisis*, European Commission
- Gonthier-Besacier, N. and Schatt, A. 2007, „Determinants of audit fees for French quoted firms“, *Managerial Auditing Journal*, Vol. 22 Iss: 2 pp. 139 – 160, accessed 25 October 2012, <<http://dx.doi.org/10.1108/02686900710718654>>.
- Gul, F.A, 2001. *Hong Kong Auditing: Economic Theory and Practice*. City University of Hong Kong press.
- Hay, D., W. Knechel and N. Wong, 2006. Audit fees: a meta-analysis of the effect of supply and demand attributes. *Contemporary Accounting Research*, 23(1): 141-191.
- Hassan, Y and Naser, K. (2013) "Determinants of Audit Fees: Evidence from an Emerging Economy", *International Business Research*; Vol. 6, No. 8, pp. 13- 25.
- Husam Al-Khaddash, Rana Al Nawas Abdulhadi Ramadan (2013) “ Factors affecting the quality of Auditing: The Case of Jordanian Commercial Banks, Zarqa, Jordan
<http://www.ofag.gov.et>. Grade & List of private Audit firms in Ethiopia.
- IFAC, (2010), “Handbook of International Auditing, Assurance and Ethics Pronouncements”, February 2010).
- INTOSAI Code of Ethics and Auditing Standards (2001)
- Ireland, J.C. and Lennox, C.S. 2002, „The large audit fee premium: a case of selectivity bias?“, *Journal of Accounting, Auditing and Finance*, Vol. 17 No. 1, pp. 73-91, Accessed 8 October, 2012 <<http://www.ntu.edu.sg/home/cslennox/JAAF.pdf>>.
- Jensen, M. and Meckling, W. (1976) Theory of Firm: Managerial Behaviour, Agency Costs, and Capital Structure, *Journal of Financial Economics*, **3**, 305-360.
- Johnstone, K.M. and Bedard, J. C. 2001, „Engagement Planning, Bid Pricing, and Client Response in the Market for Initial Attest Engagements“, *The Accounting Review*, Vol. 76, No. 2, pp. 199-220, accessed 23 September 2012, <<http://www.jstor.org/stable/3068912>>.

- Kinney, W. R. and R. Libby, (2002), “Discussion of the relation between auditors' fees for no audit services and earnings management”, *The Accounting Review*, 77 (Supplement), 107-14.
- Klein, A. (2002), „Audit committee, board of director characteristics, and earnings management“, *Journal of Accounting and Economics*, Vol. 33 No. 3, pp. 375-400.
- Kothari, C. (2004). *Research Methodology: Methods and Techniques*, Second edition, New Delhi, New Age International (P) Ltd.
- Larcker, D., & Richardson, S. (2004). Fees paid to audit firms, accrual choices and corporate governance. *Journal of Accounting Research*, 42(3), 625-58.
<http://dx.doi.org/10.1111/j.1475-679X.2004.t01-1-00143.x>
- Law of Proclamation for Financial Reporting of Ethiopia (No. 847/2014).
- Lawrence, A., Minutti-Meza, M. and Zhang, P. 2011, „Can Big 4 versus Non-Big 4 Differences in Audit-Quality Proxies Be Attributed to Client Characteristics?“*The accounting review*, Vol. 86, No. 1, pp. 259–286, accessed 28 October 2012, <<http://www.10.2308/accr.00000009>>.
- Leventis, S .and P . E . Dimitropoulos ,(2010).” Audit pricing, quality of earnings and board independence: The case of the Athens stock exchange” *Advances in Accounting, incorporating Advances in International Accounting* 26 (2010) 325–332
- Lyon, J.D. and Maher M.W. 2005, „The importance of business risk in setting audit fees: evidence from cases of client“. *Journal of Accounting Research*, Vol. 43, No. 1, pp. 133-151. accessed 5 October 2012, <<http://www.jstor.org/stable/3542418>>
- Maher, M.W., Tiessen, P., Colson, R., Broman, A.J., 1992. „Competition and Audit Fees“, *The Accounting Review*, Vol. 67, No. 1 , pp. 199-211 accessed 20 May 2012, <<http://www.jstor.org/stable/248028>>.
- Mansouri, A., Pirayesh, R., & Salehi, M. (2009). Audit Competence and Audit Quality: Case in Emerging Economy. *International Journal of Business and Management*, 4(2), 17–25.
- Mihret, D.G. 2011, „Reliance of External Auditors on Internal Audit Work: A Corporate Governance Perspective“, *International Business Research*, Vol. 4, No. 2, pp. 67-79. Accessed 3 February 2013, <http://eprints.usq.edu.au/6011/3/Mihret_James_Mula_AAAJ_2012_AV.pdf>.

- Moore, D. A., Tetlock, P.E., Tanlu L and. Bazerman, M. H 2006. „Conflicts of Interest and the Case of Auditor Independence: Moral Seduction and Strategic Issue Cycling“*The Academy of Management Review*, Vol. 31, No. 1, pp. 10-29. Accessed 12 February 2013 <<http://www.jstor.org/stable/20159182>>.
- Naser, K., Abdullhameed H. and Nuseibeh, R. (2007), „Determinants of audit fees from emerging economy“, *Scientific journal of administrative and development* vol. 5, pp. 84-116, accessed 15 October 2012, <http://www.iad.gov.qa/arabic/images/stories/volume5/article_5_07.pdf>
- National Bank of Ethiopia, 2008. “A proclamation to provide for banking business”
- Nikkinen, J. And Sahlström, P. 2003 „Do Auditors Assess The Systematic Market Risk In Their Audit Pricing Decisions? International Evidence“, *Advances in Accounting*, Volume 20, 233–244 ISSN: 0882-6110, Doi: 10.1016/S0882-6110(03)20010-9
- Nikkinen, J.,& Sahlström, P. (2004). Does Agency Theory Provide a General Framework for Audit Pricing? *International Journal of Auditing*.8(3), 253–262.
- Mthuli **Ncube** (2006), Real GDP Growth: Ethiopia and other SSA countries, The private firm creation in Ethiopia.
- Office of the Federal Auditor General 2009, Ethiopian Code of Ethics for Professional Accountants.
- ofag.gov.et, Grade & List of private Audit firms in Ethiopia.
- O'Keefe, T.B., Simunic, D.A. and Stein, M.T. 1994, „The Production of Audit Services: Evidence from a Major Public Accounting Firm“. *Journal of Accounting Research*, Vol. 32, No. 2, pp. 241-261, accessed 22, May 2012, <<http://www.jstor.org/stable/2491284>>
- Rezaee, Z, Olibe, K.O., and Mimmier, G. 2009, Improving corporate governance: The role of audit committee disclosures, *Managerial Auditing Journal*. 18 (6/7): 530-537
- Pallant, 2007. *Survival Manual: A Step by Step Guide to Data Analysis Using SPSS for Windows third edition*. Open University Press. New York, NY 10121-2289, USA.
- Palmrose, Z. 1986, „Audit Fees and Auditor Size: Further Evidence“ *Journal of Accounting Research*, Vol. 24, No. 1 pp. 97-110, accessed 20 May 2012 <<http://www.jstor.org/stable/2490806>>

- Pratt J. and James J.D. 1994, „The Effects of Client Characteristics on Auditor Litigation Risk Judgments, Required Audit Evidence, and Recommended Audit Fees“, *The Accounting Review*, Vol. 69, No. 4, pp. 639-656, accessed 24 May 2012, <<http://www.jstor.org/stable/248435> >
- Proclamation No. 847/2014, proclamation for Financial Reporting of Ethiopia.
- Proclamation No. 592/2008., A proclamation to provide for banking business
- Schneider, F and Tran, D.H. 2013 “The Role of Fair Values in the Pricing of Audit Services - Evidence from European Banks” accessed 20 May 2013
<http://ssrn.com/abstract=2208717>
- SEC Code (2003): Security and Exchange Commission code of corporate governance for public listed companies in the Nigerian Stock Exchange www.sec.gov.ng
- Stice, J. (1991). Using financial and market information to identify pre-engagement factors associated with
- Simunic , D.A. 1980, „ The Pricing of Audit Services: Theory and Evidence“, *Journal of Accounting Research*, Vol. 18, No. 1, pp. 161-190, accessed 2 December2012, <<http://www.jstor.org/stable/2490397>>.
- Swanson, k. 2008.,„The Determinants of Audit Prices for Financial Services Institutions in the United States“ *Major Themes in Economics*.
- Thinggaard, F. and Kiertzner, L. 2008, „Determinants of Audit Fees: Evidence from a Small Capital Market with a Joint Audit Requirement“, *International Journal of Auditing* Vol. 12. Pp. 141–158, accessed 20 May 2012,
<<http://alexatc.com/data/audit%20fees/Determinants%20of%20Audit%20Fees.pdf>>
- Tamrat Afesha, May 2014 “Audit Fees Determinants and Audit Quality in Ethiopian Commercial Banks “,A research thesis, Department of Accounting and Finance College of Business and Economics , Presented in Partial Fulfillment of the Requirements for the Degree of Master of Science in Accounting and Finance, Addis Ababa University, Ethiopia.
- Tsui, J.S.L., Jaggi, B., and Gul, F.A. (2001).CEO domination, growth opportunities, and their impact on audit fees *Journal of Accounting, Auditing and Finance*, 16 (3), 189-208.
- Watts, R. L., & Zimmerman, J. L. (1990).Towards a positive theory of positive accounting: A ten year perspective. *The Accounting Review*, 65, 131-156.

- World Bank 2007, Report on the observance of standards and codes (ROSC) Ethiopia, available from <http://www.worldbank.org/ifa/rosc_aa_ethiopia.pdf>.
- Wui, X. (2012) Corporate governance and audit fees: Evidence from companies listed on the Shanghai Stock Exchange, *China Journal of Accounting, Research*, 5, 321–342.
- Zerni, M. 2009, „Essays on Audit Quality“, dissertation University of Oulu, Finland, ISBN 978-951-42-9292-7 (PDF), accessed 19 May, 2012, [Error! Hyperlink reference not valid.](#)
- Xie, B., Davidson, W. N. & DaDalt, P. J. 2010, „Earnings management and corporate governance: the roles of the board and the audit committee“, *Journal of Corporate Finance*, Vol. 9, No. 3, pp. 295-316.

Appendixes

Appendix A. *Survey Questionnaires for Private Banking Industry in Ethiopia:*

ADDIS ABABA UNIVERSITY

COLLEGE OF BUSINESS AND ECONOMICS

DEPARTMENT OF ACCOUNTING AND FINANCE

MSC Program in Accounting and Auditing

Survey Questionnaires for Private Banking Industry in Ethiopia:

Questionnaires are designed for that practice in **private commercial banking industries** in Ethiopia. **The purpose** of this questionnaire is to gather relevant data that will be used in undertaking a study on the topic “**Factors Affecting Audit Fees in the case of Ethiopian Private Banking Industries**” as a partial fulfillment of the requirements for the Master’s degree in Accounting and Auditing (MSc). Therefore, this questionnaire is planned to collect data on the perceptions you have towards factors affecting audit fees incorporate governances in the case of private banks.

Accordingly, your cooperation in filling out the questionnaire carefully and genuinely, apart from contributing towards the successful completion of the study is essential input towards for the creation of a reliable knowledge and policy makers.

Lastly, 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 and exclusively be used only for the academic research purpose. *The target respondents are: BODs (chair & vise member), Audit Committees (chair & member), internal controllers’ director & division head, internal audit director & division head and finance directors of the banks.*

Thank you in advance for your kind cooperation!

Getachew LechuMobile +251911469583

A) Survey Questionnaires for Private Banking Industries in Ethiopia

Section 1: Demographic Background

Please kindly tick (X) in boxes corresponding to your answer or respond by writing if required.

1. Gender: Female Male
2. The highest education completed
 - Technical / vocational certificate (Diploma) Bachelor's degree
 - Master's degree PHD
 - Other (specify) _____
3. Years of work experience:
 - Less than 5 years 6 - 10 years
 - 11 - 15 years 16 - 20 years
 - Over 20 years
4. Your Current position in your Bank _____

Section 2: Close Ended Questions

Dear respondent, I would like to have your specific perceptions towards **Factors Affecting Audit Fee in your Bank**. Please indicate the appropriate scale for your opinion by tick mark on the choice options that range from "1= Strongly Disagree, 2= Disagree, 3=Neutral, 4=Agree, 5= strongly Agree" below under each issues raised questions. Please read attentively and selected the best which can help the researcher to give the reliable and dependable recommendation.

A) Audit Fees

- 1) Assurance (guarantee) may be affected if the auditors are not performing independently.
 - 1. Strongly Disagree 2. Disagree 3. Neutral 4. Agree 5. Strongly Agree
- 2) Financial dependency of auditors on their clients may lead to violation of auditor's independence.
 - 1. Strongly Disagree 2. Disagree 3. Neutral 4. Agree 5. Strongly Agree
- 3) Contractual or institutional requirements determine the demand for audit services to be provided by audit firm.
 - 1. Strongly Disagree 2. Disagree 3. Neutral 4. Agree 5. Strongly Agree
- 4) Generally, audit fees in the banking industries; in Ethiopia, are very low.
 - 1. Strongly Disagree 2. Disagree 3. Neutral 4. Agree 5. Strongly Agree
- 5) The thin audit market and the stiff competition among audit firms are makes audit fees lower.
 - 1. Strongly Disagree 2. Disagree 3. Neutral 4. Agree 5. Strongly Agree
- 6) Selection of audit firms to get audit services; in the country, highly depend on bidding process.
 - 1. Strongly Disagree 2. Disagree 3. Neutral 4. Agree 5. Strongly Agree
- 8) Bidding process selection of audit firm can maintain the quality of financial reports intensively.
 - 1. Strongly Disagree 2. Disagree 3. Neutral 4. Agree 5. Strongly Agree
- 9) Selection of audit firm to get audit service depends on reputation of the firm.
 - 1. Strongly Disagree 2. Disagree 3. Neutral 4. Agree 5. Strongly Agree
- 10) Selection of audit firm by the client to get audit services can depend on physical relation.
 - 1. Strongly Disagree 2. Disagree 3. Neutral 4. Agree 5. Strongly Agree

B) Board Characteristics

- 1) The structure of the Boards is independent from top management and from operation of the Bank and established sub committees (e.g. audit committee, etc.)
 1. Strongly Disagree
 2. Disagree
 3. Neutral
 4. Agree
 5. Strongly Agree
- 2) The board evaluates and reviews the performance of its board members, the board itself and the organization's key management personnel
 1. Strongly Disagree
 2. Disagree
 3. Neutral
 4. Agree
 5. Strongly Agree
- 3) The board assesses its performance and the overall quality of governance.
 1. Strongly Disagree
 2. Disagree
 3. Neutral
 4. Agree
 5. Strongly Agree
- 4) The board is formed with the combinations of particular skills, knowledge or experience which are needed on the board for it to function effectively.
 1. Strongly Disagree
 2. Disagree
 3. Neutral
 4. Agree
 5. Strongly Agree
- 5) The board reviews the skills, knowledge and experience of existing directors and determines of any gaps.
 1. Strongly Disagree
 2. Disagree
 3. Neutral
 4. Agree
 5. Strongly Agree
- 6) The board uses the induction process, director reviews and gap analysis to assess continuing professional development needs (relevant to the organization) and to enhance the relevant skills and knowledge of board members and key management personnel.
 1. Strongly Disagree
 2. Disagree
 3. Neutral
 4. Agree
 5. Strongly Agree
- 7) The board takes to promote a cohesive board team, both as part of a regular performance assessment and for new board appointments.
 1. Strongly Disagree
 2. Disagree
 3. Neutral
 4. Agree
 5. Strongly Agree
- 8) Board of directors has any impact always over the audit fee.
 1. Strongly Disagree
 2. Disagree
 3. Neutral
 4. Agree
 5. Strongly Agree
- 9) Audit fee charged to the riskier Bank Sectors is far greater than those Bank Sectors whose risk is less because riskier Banks perceived to have weak internal control.
 1. Strongly Disagree
 2. Disagree
 3. Neutral
 4. Agree
 5. Strongly Agree
- 10) The board of director's at private banks have high level of independence in nomination of external auditors and decision of audit fees to maintain an audit quality..
 1. Strongly Disagree
 2. Disagree
 3. Neutral
 4. Agree
 5. Strongly Agree
- 11) Independent and diligent board members always concern for higher audit quality services do not determine the service cost.
 1. Strongly Disagree
 2. Disagree
 3. Neutral
 4. Agree
 5. Strongly Agree

C) Audit committee Characteristics

- 1) The scope of the internal audit programme has usually been reviewed and follow ups on actions taken by the management on internal audit findings and recommendations is intensively conducted within your bank.
1. Strongly Disagree 2. Disagree 3. Neutral 4. Agree 5. Strongly Agree
- 2) The effectiveness of internal controls and risk management processes are intensively reviewed.
1. Strongly Disagree 2. Disagree 3. Neutral 4. Agree 5. Strongly Agree
- 3) The compliance to the policies & rules of the company and proclamations, regulations, directives, guidelines of the National Bank and other relevant laws are always checked.
1. Strongly Disagree 2. Disagree 3. Neutral 4. Agree 5. Strongly Agree
- 4) The audit findings and ensuring that issues are being managed and rectified appropriately and in a timely manner are regularly reviewed.
1. Strongly Disagree 2. Disagree 3. Neutral 4. Agree 5. Strongly Agree
- 5) The external auditor's management letter and responses are always reviewed.
1. Strongly Disagree 2. Disagree 3. Neutral 4. Agree 5. Strongly Agree
- 6) The objectivity, performance and independence of external auditors are assessed intensively.
1. Strongly Disagree 2. Disagree 3. Neutral 4. Agree 5. Strongly Agree
- 7) The appointment and the removal of external auditors are always recommended.
1. Strongly Disagree 2. Disagree 3. Neutral 4. Agree 5. Strongly Agree
- 8) The Appointment, setting of compensation, evaluation of performance and deciding on the transfer and dismissal of the Chief Internal Auditor is always under gone.
1. Strongly Disagree 2. Disagree 3. Neutral 4. Agree 5. Strongly Agree
- 9) The functions of the Internal Audit Unit are overseen intensively.
1. Strongly Disagree 2. Disagree 3. Neutral 4. Agree 5. Strongly Agree
- 10) The fairness and transparent of reporting and prompt publication of the financial accounts are intensively ensured.
1. Strongly Disagree 2. Disagree 3. Neutral 4. Agree 5. Strongly Agree
- 11) All related party transactions are reviewed and such transactions are always informed to the board.
1. Strongly Disagree 2. Disagree 3. Neutral 4. Agree 5. Strongly Agree
- 12) Independent audit committees have been to protect their reputation and avoiding potential litigation strongly.
1. Strongly Disagree 2. Disagree 3. Neutral 4. Agree 5. Strongly Agree
- 13) There is high level independence of audit committee in the private banking sectors.
1. Strongly Disagree 2. Disagree 3. Neutral 4. Agree 5. Strongly Agree
- 14) Audit committees have been protected their reputation and avoiding potential litigation.
1. Strongly Disagree 2. Disagree 3. Neutral 4. Agree 5. Strongly Agree
- 15) Strength of audit committee is significantly associated with the quality of internal controls and financial reports.
1. Strongly Disagree 2. Disagree 3. Neutral 4. Agree 5. Strongly Agree
- 16) Independency and the works or concerns of audit committee with in banking sectors have been contributing greatly in assessing internal controls and compliance processes.
1. Strongly Disagree 2. Disagree 3. Neutral 4. Agree 5. Strongly Agree

D) Audit complexity

- 1) If audit complexity increases, audit firms tend to charge higher audit fees.
1. Strongly Disagree 2. Disagree 3. Neutral 4. Agree 5. Strongly Agree
- 2) Audit fees increase as the number of subsidiaries increases because of its complexity.
1. Strongly Disagree 2. Disagree 3. Neutral 4. Agree 5. Strongly Agree
- 3) If audit complexity increases, the auditor would need to spend more audit hours and allocate higher level of expertise to the engagement, thus resulting in higher audit fees.
1. Strongly Disagree 2. Disagree 3. Neutral 4. Agree 5. Strongly Agree
- 4) The audit of foreign subsidiaries is usually more complex given differences in accounting treatments, and legal, cultural and linguistic challenges.
1. Strongly Disagree 2. Disagree 3. Neutral 4. Agree 5. Strongly Agree
- 5) Complexity in terms of scope of operation or in respect of balance sheets composition has a significant impact on the level of the audit fee.
1. Strongly Disagree 2. Disagree 3. Neutral 4. Agree 5. Strongly Agree

E) Audit Firm Size

- 1) A large audit firm provides a quality audit service to their clients & charge higher audit fees.
1. Strongly Disagree 2. Disagree 3. Neutral 4. Agree 5. Strongly Agree
- 2) There is positive relationship between the audit firm size and audit fees charged by audit firm.
1. Strongly Disagree 2. Disagree 3. Neutral 4. Agree 5. Strongly Agree
- 3) The Auditor Size is regularly measured based on the company's assets, market share and the number of employees.
1. Strongly Disagree 2. Disagree 3. Neutral 4. Agree 5. Strongly Agree
- 4) The professional experience of the audit firm can be intensively considered as an important attribute that affecting the amount of audit fees charged by the audit firm.
1. Strongly Disagree 2. Disagree 3. Neutral 4. Agree 5. Strongly Agree
- 5) The audit office reputation is the perception that as a factors affecting the audit service pricing to audit firms can provide higher quality auditing.
1. Strongly Disagree 2. Disagree 3. Neutral 4. Agree 5. Strongly Agree
- 6) An increase in the number of Audit firms lead to a significant decrease in real audit fees intensively.
1. Strongly Disagree 2. Disagree 3. Neutral 4. Agree 5. Strongly Agree
- 7) The absence of the Big audit firms in Ethiopia affect audit fees to provide higher quality audit.
1. Strongly Disagree 2. Disagree 3. Neutral 4. Agree 5. Strongly Agree

F) Audit risk

- 1) Auditors perform a more extensive audit to obtain a reasonable level of assurance in response to higher risk and charge a premium for dealing with higher risk.
1. Strongly Disagree 2. Disagree 3. Neutral 4. Agree 5. Strongly Agree
- 2) Bank with low profitability are more likely to engage in questionable accounting practices as they seek to cover-up their poor operating performance leads auditors to increase their audit effort and thus charge higher audit fees.
1. Strongly Disagree 2. Disagree 3. Neutral 4. Agree 5. Strongly Agree
- 3) A significant portion of assets such as receivables needs audit procedures to verify it more time-consuming, costly and involve higher levels of professional judgment.
1. Strongly Disagree 2. Disagree 3. Neutral 4. Agree 5. Strongly Agree
- 4) Non-performing loans are expected to demand greater audit effort and charged high audit cost.
1. Strongly Disagree 2. Disagree 3. Neutral 4. Agree 5. Strongly Agree
- 5) Higher risk audit service would result in increase in fee charge by the auditor so as to militate against such risk.
1. Strongly Disagree 2. Disagree 3. Neutral 4. Agree 5. Strongly Agree
- 6) Due to the different Banking institution is, the audit risk peculiar to it is not the same with other industrial organization.
1. Strongly Disagree 2. Disagree 3. Neutral 4. Agree 5. Strongly Agree
- 7) The broad group of risks faced by bank are capital, credit and liquidity risks intensively.
1. Strongly Disagree 2. Disagree 3. Neutral 4. Agree 5. Strongly Agree
- 8) The possibility of legal action from investor, due to auditor negligence and, the possible loss of income from litigation as a result to failure of the auditee's business or non-detection of material error in the account.
1. Strongly Disagree 2. Disagree 3. Neutral 4. Agree 5. Strongly Agree

G) Audit Quality

- 1) Audit quality is fundamental and corporate governance should have full confidence in the auditor work.
1. Strongly Disagree 2. Disagree 3. Neutral 4. Agree 5. Strongly Agree
- 2) Auditor's ability to be objective in disclosing a financial statement reporting problem.
1. Strongly Disagree 2. Disagree 3. Neutral 4. Agree 5. Strongly Agree
- 3) Auditor's ability to be unbiased in disclosing financial reporting problems.
1. Strongly Disagree 2. Disagree 3. Neutral 4. Agree 5. Strongly Agree
- 4) Freedom from managerial interference with the audit program.
1. Strongly Disagree 2. Disagree 3. Neutral 4. Agree 5. Strongly Agree

5) Free access to all records, producers, and personnel relevant to the audit.

1. Strongly Disagree 2. Disagree 3. Neutral 4. Agree 5. Strongly Agree

6) Active co-operation from management personnel during the audit examination.

1. Strongly Disagree 2. Disagree 3. Neutral 4. Agree 5. Strongly Agree

7) Freedom from personal interests on the part of the auditor leading to exclusions form or limitations on the audit examination.

1. Strongly Disagree 2. Disagree 3. Neutral 4. Agree 5. Strongly Agree

8) The auditor maintains independence always in fact.

1. Strongly Disagree 2. Disagree 3. Neutral 4. Agree 5. Strongly Agree

9) The auditor maintains independence always in appearance.

1. Strongly Disagree 2. Disagree 3. Neutral 4. Agree 5. Strongly Agree

Appendix:2. Selected Private Banks Head office existence area and service years

1. List of private banks in Ethiopia those selected for research of factors affecting audit fee Year established, number of branches, number of year service, number of annual report produced and Area of Head Office Existence (December30, 2015).

s/n	Bank Name	Year Est.	No of Branches	No of Year service	No of annual report	Area of Head Office Existence
1	Awash International Bank	1994	191	21	22	Commercial College
2	Bank of Abyssinia	1996	111	19	18	Bole Dildy & Stadium
3	Dashen Bank	1996	146	19	18	Saris and Global Hotel
4	Wegagaen Bank	1997	98	18	17	Dembel City Bldg
5	United Bank	1998	108	17	16	Global Hotel
6	Nib International Bank	1999	98	16	15	Dembel City Bldg
7	Cooper Bank of Oromia	2005	144	10	9	Flamingo
8	Lion International Bank	2006	67	9	8	Zerhun Buldg(22)
9	Oromia International Bank	2008	115	7	6	Getu Commercial
10	Bunna International Bank	2009	72	6	5	4kilo
11	Zemen Bank	2009	1	6	5	Kasanchise
12	Abay Bank S.C.	2010	79	5	4	Bambis
13	Berhan International Bank	2010	86	5	4	Bole - Dilidy

Table 3.1 Sample taken from each Private commercial Banking Industry

s/n	Bank Name	Form BOD	From AC in BOD	IC Director & DH	IA Head & DH	Finance Head	Select ed Sample size	Distrib uted Questio nnaires	Collec ted Data
1	Awash Int'l Bank	2	2	2	2	1	9	9	9
2	Bank of Abyssinia	2	2	2	2	1	9	9	8
3	Dashen Bank	2	2	2	2	1	9	9	9
4	Wegagaen Bank	2	2	2	2	1	9	9	9
5	United Bank	2	2	2	2	1	9	9	8
6	Nib Int'l Bank	2	2	2	2	1	9	9	9
7	Coop. Bank of Oromia	2	2	2	2	1	9	9	9
8	Lion Int'l Bank	2	2	2	2	1	9	9	9
9	Oromia Int'l Bank	2	2	2	2	1	9	9	9
10	Bunna Int'l Bank	2	2	2	2	1	9	9	8
11	Zemen Bank	2	2	2	2	1	9	9	9
12	Abay Bank S.C.	2	2	2	2	1	9	9	9
13	Berhan Int'l Bank	2	2	2	2	1	9	9	8
	Total	26	26	26	26	13	117	117	113

Remarks: Total questionnaire distributed = 117, Total collected = 113, Respondents in %age = $113/117 = 97\%$ and not Responded % age = $4/117 = 3\%$

Table 4.1 Sex of respondents (N=113)

Sex	Frequency	Percent
Male	99	88
Female	14	12
Total	113	100.0

Source: Calculated from survey data, 2016

Table 4.2 work experience of respondents (N=113)

<i>Experience</i>	<i>Frequency</i>	<i>Percent</i>
<i>Less than 5 years</i>	<i>3</i>	<i>3</i>
<i>6 to 10 years</i>	<i>19</i>	<i>17</i>
<i>11 to 15 years</i>	<i>22</i>	<i>20</i>
<i>16 to 20 years</i>	<i>38</i>	<i>34</i>
<i>over 20 years</i>	<i>29</i>	<i>26</i>
<i>Total</i>	<i>113</i>	<i>100.0</i>

Source: Calculated from survey data, 2016

Table 4.3. Respondent's Educational Profiles

Educational Profile	Frequency	Percent
Diploma	3	3
BA	84	75
MA/MSc	19	17
PHD	6	5
Total	113	100.0

Source: Calculated from survey data, 2016

Table 4.4 Board Characteristics to affect audit fee in Ethiopian private banking industry (N=113)

Model	Standardized	T	Sig.
	Coefficients		
	Beta		
(Constant)		11.877	.000
Board independence	.158	1.595	.114
The board evaluation and reviews of the performance of members, and other bodies	-.195	-1.380	.171
The board assessments of performance and quality of governance.	-.303	-2.301	.023
The board's professional diversity	.406	2.612	.010
The board reviews the skills, knowledge and experience gap of directors	-.092	-.584	.561
The board uses the induction process, director reviews and gap analysis	-.222	-1.678	.097
The board takes to promote a cohesive board team for new board appointments.	-.244	-1.770	.080
Board of directors has any impact over the audit fee.	.391	3.789	.000
Audit fee charged to the riskier Bank Sectors than less risker banks	.029	.260	.795
The board of director's at private banks have high level of independence	-.107	-1.077	.284
Independent and diligent board members always concern for higher audit quality services	-.164	-1.696	.093

Dependent Variable: Audit Fee

Source: Calculated from field survey data, 2016

Table4. 5 Audit Committee Characteristics to affect audit fee in Ethiopian private banking industry (N=113)

Model	Standardized Coefficients	T	Sig.
	Beta		
(Constant)		4.862	.000
The scope of the internal audit program has usually been reviewed and follow ups on actions taken by the management	.103	1.102	.274
The effectiveness of internal controls and risk management processes are reviewed.	.214	2.180	.032
The compliance to the policies & rules of the company are always checked.	-.070	-.605	.547
The audit findings are being managed and regularly reviewed.	-.102	-.760	.450
The external auditor's management and responses are always reviewed.	-.146	-1.290	.201
The objectivity, performance and independence of external auditors are assessed	.107	.826	.412
The appointment and removal of external auditors are always recommended.	-.256	-2.306	.024
The Appointment, setting of compensation, evaluation of performance of the Chief Internal Auditor under gone.	-.172	-1.502	.137
The functions of the Internal Audit Unit are overseen	-.271	-2.306	.024
The fairness and transparent of reporting the financial accounts are ensured.	.112	.851	.397
All related party transactions are reviewed and informed to the board.	.173	1.449	.151
Independent audit committees protect their reputation and avoiding potential litigation	.020	.114	.910
high independence of audit committee in the private banking sectors	.193	1.464	.147
Audit committees have been protected their reputation and avoiding potential litigation.	-.066	-.476	.635
Strength of audit committee is significantly associated with the quality of internal controls and financial reports	-.360	-2.658	.010
Independency of audit committee contributing in assessing internal controls and compliance processes.	.261	2.571	.012

Dependent Variable: Audit Fee

Source: Calculated from field survey data, 2016

Table 4. 6 Audit complexity affect audit fee in Ethiopian private commercial banking industry (N=113)

Model	Standardized Coefficients	t	Sig.
	Beta		
(Constant)		7.929	.000
If audit complexity increases, audit firms tend to charge higher audit fees.	-.253	-2.152	.034
Audit fees increase as the number of subsidiaries increases	.067	.621	.536
If audit complexity increases, the auditor needs to spend more audit hours and allocate higher to expertise thus resulting higher audit fees.	-.288	-3.094	.003
The audit of foreign subsidiaries is usually more complex in accounting treatments, and legal, cultural and linguistic challenges.	-.079	-.866	.388
Complexity in terms of scope of operation or balance sheets composition has a significant impact on the level of the audit fee.	.002	.020	.984

Dependent Variable: Audit Fee

Source: Calculated from field survey data, 2016

Table 4.7 Audit risk affect audit fee in Ethiopian private commercial banking industry (N=113)

Model	Standardized Coefficients	t	Sig.
	Beta		
(Constant)		5.882	.000
Auditors perform a more audit to obtain a reasonable level of assurance to higher risk	-.090	-.854	.395
Bank with low profitability are more likely to engage in questionable accounting practices as they seek to cover-up their poor operating performance thus charge higher audit fees.	.001	.008	.993
A significant portion of assets needs audit procedures to verify it more time-consuming, costly and involve higher levels of professional judgment.	-.167	1.316	.191
Non-performing loans are expected to demand greater audit effort and charged high audit cost.	-.208	1.798	.075
Higher risk audit service would result in increase in fee charge by the auditor to militate against such risk.	.121	1.062	.291
Due to the different Banking institution , the audit risk peculiar to it is not the same with other industrial organization	.168	1.751	.083
The broad group of risks faced by bank is capital, credit and liquidity risks.	.049	.462	.645

Dependent Variable: Audit Fee

Source: Calculated from field survey data, 2016

Table 4.8 Audit Firm Size affect audit fee in Ethiopian private commercial banking industry (N=113)

Model	Standardize	t	Sig.
	d Coefficients		
	Beta		
(Constant)		7.516	.000
There is positive relationship between the audit firm size and audit fees charged	.328	3.187	.002
The Auditor Size is regularly measured based on the company's assets, market share and the number of employees.	.134	.949	.345
The professional experience of the audit firm can be considered as an important attribute to affect the amount of audit fees	.013	.100	.921
The audit office reputation is the perception affecting the audit service pricing to audit firms can provide higher quality auditing.	-.100	-.953	.343
An increase in the number of Audit firms lead to a significant decrease in real audit fees	.061	.649	.518
The absence of the Big audit firms in Ethiopia affect audit fees to provide higher quality audit.	-.452	-4.059	.000
The absence of strong audit firms association in Ethiopia resulted to low audit fees	-.188	-1.858	.066
The existence of association of audit firms in Ethiopia resulted to strong professional and fair audit fees.	-.138	-1.397	.165

Dependent Variable: Audit Fee

Source: Calculated from field survey data, 2016

Table 4.9 Audit Quality affect audit fee in Ethiopian private commercial banking industry (N=113)

Model	Standardized	t	Sig.
	Coefficients		
	Beta		
(Constant)		5.631	.000
Audit quality is fundamental and corporate governance should have full confidence in the auditor work.	.326	3.048	.003
Auditor's ability to be objective in disclosing a financial reporting problem	.093	.947	.346
Auditor's ability to be unbiased in disclosing financial reporting problems.	-.280	-2.057	.042
Freedom from managerial interference with the audit program.	.097	.612	.542
Free access to all records, producers, and personnel relevant to the audit.	-.291	-1.834	.070
Active co-operation from management personnel during the audit examination.	-.069	-.701	.485
Freedom from personal interests on the part of the auditor leading to exclusions from or limitations on the audit examination.	.023	.197	.844
The auditor maintains independence always in fact.	.151	1.533	.128
The auditor maintains independence always in appearance.	-.197	-1.771	.080

Dependent Variable: Audit Fee; **Source:** Calculated from field survey data, 2016

Table 4.10 Standardized Coefficient, t-test and Sig. values of sub-explanatory variables (N=113)

No	Model	Standardized Coefficient	t	sig
		Beta		
1	The board assessments of performance and quality of governance.	-.303	-2.301	.023
2	The board's professional diversity	.406	2.612	.010
3	The board uses the induction process, director reviews and gap analysis	-.222	-1.678	.097
4	The board takes to promote a cohesive board team for new board appointments.	-.244	-1.770	.080
5	Board of directors has any impact over the audit fee.	.391	3.789	.000
6	Independent and diligent board members always concern for higher audit quality services	-.164	-1.696	.093
7	The effectiveness of internal controls and risk management processes are reviewed.	.214	2.180	.032
8	The appointment and removal of external auditors are always recommended.	-.256	-2.306	.024
9	The functions of the Internal Audit Unit are overseen	-.271	-2.306	.024
10	Strength of audit committee is significantly associated with the quality of internal controls and financial reports	-.360	-2.658	.010
11	Independency of audit committee contributing in assessing internal controls and compliance processes	.261	2.571	.012
12	If audit complexity increases, audit firms tend to charge higher audit fees.	-.253	-2.152	.034
13	If audit complexity increases, the auditor needs to spend more audit hours and allocate higher to expertise thus resulting higher audit fees.	-.288	-3.094	.003
14	Non-performing loans are expected to demand greater audit effort and charged high audit cost	-.208	-1.798	.075
15	Due to the different Banking institution , the audit risk peculiar to it is not the same with other industrial organization	.168	1.751	.083
16	There is positive relationship between the audit firm size and audit fees charged	.328	3.187	.002
17	The absence of the Big-Four audit firms in Ethiopia affect audit fees to provide higher quality audit	-.452	-4.059	.000
18	The absence of strong audit firms association in Ethiopia resulted to low audit fees	-.188	-1.858	.066
19	Audit quality is fundamental and corporate governance should have full confidence in the auditor work	.326	3.048	.003
20	Auditor's ability to be unbiased in disclosing financial reporting problems	-.280	-2.057	.042
21	Free access to all records, producers, and personnel relevant to the audit	-.291	-1.834	.070
22	The auditor maintains independence always in appearance	-.197	-1.771	.080

Dependent Variable: Audit Fee

Source: Calculated from field survey data, 2016

Table 4.11 Degree of correlation

Correlations								
		Board Character	Audit Committee Character	Audit Complexity	Audit Risk	Audit Firm Size	Audit Quality	Audit Fee
Board Characteristics	Pearson Correlation	1	.719**	.148	.168	.288**	.683**	-.224*
	Sig.		.000	.120	.077	.002	.000	.018
Audit Committee Characteristics	Pearson Correlation	.719**	1	.156	.091	.191*	.581**	-.355**
	Sig. (2-tailed)	.000		.101	.341	.044	.000	.000
Audit Complexity	Pearson Correlation	.148	.156	1	.097	.330**	-.073	.144
	Sig. (2-tailed)	.120	.101		.311	.000	.444	.130
Audit Risk	Pearson Correlation	.168	.091	.097	1	.481**	.371**	.205*
	Sig. (2-tailed)	.077	.341	.311		.000	.000	.030
Audit Firm Size	Pearson Correlation	.288**	.191*	.330**	.481**	1	.381**	.303**
	Sig. (2-tailed)	.002	.044	.000	.000		.000	.001
Audit Quality	Pearson Correlation	.683**	.581**	-.073	.371**	.381**	1	-.367**
	Sig. (2-tailed)	.000	.000	.444	.000	.000		.000
Audit Fee	Pearson Correlation	-.224*	-.355**	.144	.205*	.303**	-.367**	1
	Sig. (2-tailed)	.018	.000	.130	.030	.001	.000	

** . Correlation is significant at the 0.01 level (2-tailed).

* . Correlation is significant at the 0.05 level (2-tailed).

Table 4.12 Regression result for the factors of audit fees

Model	Standardized Coefficients	T	Sig.
	Beta		
(Constant)		14.158	.000
Board Characteristics	-.275	1.966	.052
Audit Committee Characteristics	-.362	-2.879	.005
Audit Risk	.025	-.244	.808
Audit Firm Size	.203	-2.011	.047
Audit Quality	-.258	-2.004	.048

Source: summary

Table and graph 4.13a Bank Size and Audit Fee Analyzes of 13 Private Banks

Bank size and audit fee Analyze using Total asset Vs. Audit fee from the audited annual Audit financial statements of banks of 5 years from (2010/11 to 2014/15)

s/n	Name of Banks	Items	Annual Reports of Total Assets, Audit Fees and Years				
			2010/11	2011/12	2012/13	2013/14	2014/15
1	Awash I Bank	Total asset	9,022,989,378	11,089,440,859	17,783,926,770	22,106,346,493	25,210,501,454
		Cost paid	115,000	172,500	172,500	264,500	300,000
2	Bank of Abyss	Total asset	-	-	10,160,113,834	11,276,391,264	13,667,558,642
		Cost paid	-	-	158,000	178,250	187,500
3	Dashen Bank	Total asset	12,353,386,038	14,659,795,156	17,520,042,319	19,747,174,767	21,962,202,063
		Cost paid	190,500	300,000	332,695	390,000	475,000
4	Weggagen Bank	Total asset	5,741,936,575	8,060,937,378	8,165,434,410	10,393,803,401	11,528,769,913
		Cost paid	-	-	-	-	-
5	United Bank	Total asset	163,546,023	216,244,424	107,000,120,750	325,741,199	431,280,466
		Cost paid	-	-	-	-	-
6	Nib Int'l B	Total asset	4,806,507,027	5,970,511,304	7,111,808,078	10,747,283,267	13,256,124,481
		Cost paid	120,000	172,500	299,000	368,000	356,500
7	Cooperative BO	Total asset	-	3,670,725,943	6,537,470,275	7,350,371,845	-
		Cost paid	-	80,500	79,633	99,387	-
8	Lion Int'l Bank	Total asset	-	2,463,031,718	2,942,432,757	3,613,339,108	5,859,362,240
		Cost paid	-	94,000	111,046	179,443	148,754
9	Oromia IB	Total asset	1,961,838,706	2,787,394,118	3,911,231,433	6,151,660,507	9,534,850,080
		Cost paid	61,886	75,000	90,982	92,000	109,250
10	Bunna IB	Total asset	781,365,756	1,365,032,038	-	2,128,453,819	3,011,945,779
		Cost paid	55,200	86,250	-	73,600	128,800
11	Zemen Bank	Total asset	1,613,912,451	2,394,242,097	3,248,457,497	3,924,769,457	4,874,340,646
		Cost paid	138,100	112,700	143,750	155,250	250,000
12	Abay Bank	Total asset	456,885,881	1,237,900,145	1,951,100,077	3,196,779,769	--
		Cost paid	-No fee	52,500	78,250	160,000.00	-
13	Berhan IB	Total asset	-	-	-	-	-
		Cost paid	-	-	-	-	-

Source: Annual financial reports of 5 years from (2010/11 to 2014/15)

Table 4.13b Bank Size and Audit Fee Analyzes of 13 Private Banks with table and graphs

