



DETERMINANTS OF EXTERNAL AUDIT EFFECTIVENESS IN

THE HOSPITALITY INDUSTRY IN ETHIOPIA:

THE CASE OF FIVE-STARS HOTELS IN ADDIS ABABA

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DECLARATION

I, Seble Bejiga, declare that this study entitled "**Determinants of External Audit Effectiveness in the Hospitality Industry in Ethiopia: The Case of Five-Stars Hotels in Addis Ababa**" is my original work and has not been presented for a degree in any other university and that all sources of material used for the study have been acknowledged.

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This is to certify that the thesis carried out by |Seble Bejiga, under the supervision of Dr. Habtamu Berhanu entitled 'Determinants of External Audit Effectiveness in the Hospitality Industry in Ethiopia: The Case of Five-Stars Hotels in Addis Ababa" and submitted in partial fulfillment of the requirements of the Degree of Master of Science in Accounting and Finance complies with the regulations of the University and meets the accepted standards with respect to originality and quality.

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Abstract

This study examines the determinants of external audit effectiveness in Ethiopia's hospitality industry, focusing on five-star hotels in Addis Ababa. It explores the impact of auditor qualifications, independence, regulatory frameworks, management cooperation, and industry-specific challenges on audit effectiveness. A quantitative approach was employed, combining quantitative data collected through structured questionnaires from external auditors and hotel management. Descriptive and inferential statistical methods were applied using STATA software to analyze the data. Findings indicate that auditor competence, independence, and a strong regulatory framework significantly enhance audit effectiveness, while industry challenges and limited management cooperation hinder the process. The study underscores the need for strengthened regulations and improved collaboration between auditors and hotel management to enhance financial transparency and accountability in the sector.

Keywords: External Audit Effectiveness, Auditor Qualification, Auditor Independence, Regulatory Framework, Management cooperation, Industry Specific Challenges Hospitality Industry, Ethiopia.

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CHAPTER ONE

1. Introduction

External auditing plays a crucial role in ensuring financial transparency and accountability, particularly in sectors with significant economic contributions such as the hospitality industry. In Ethiopia, the hospitality sector has expanded due to increasing tourism and business travel, with five-star hotels in Addis Ababa serving as key economic drivers. These establishments require robust external audits to enhance financial integrity, investor confidence, and regulatory compliance.

However, existing studies on external audit effectiveness predominantly focus on developed economies, where regulatory enforcement, auditor expertise, and financial reporting practices differ significantly. Limited empirical evidence exists on audit effectiveness in Ethiopia's hospitality sector, particularly for five-star hotels. The unique operational complexities of these hotels—such as diverse revenue streams, cash-intensive transactions, and seasonality—pose additional challenges to external audit effectiveness, yet remain largely underexplored in Ethiopia's context.

This study aims to fill this research gap by examining the key determinants of external audit effectiveness in Ethiopia's five-star hotels. Specifically, it investigates how auditor qualifications, independence, regulatory frameworks, management cooperation, and industry-specific challenges impact audit outcomes. By addressing these factors, the study contributes to improving financial transparency and strengthening Ethiopia's auditing practices in the hospitality sector.

1.1 Background of the Study

The hospitality industry is a significant contributor to Ethiopia's economy, with Addis Ababa serving as the hub for international travelers, corporate meetings, and global events. According to the United Nations Economic Commission for Africa (2019), the sector contributed nearly USD 4.8 billion to Ethiopia's GDP in 2019, marking a decade of consistent growth. " The presence and increase of five-star hotels in Addis Ababa underscores the city's importance as a destination for high-profile clientele. These hotels operate in a highly competitive and regulated environment, where

effective financial management is critical for sustaining operations, managing risks, and meeting the expectations of diverse stakeholders.

External audits serve as an essential tool in ensuring the financial accountability and transparency of these establishments. Audits help verify the accuracy of financial statements, assess compliance with local and international accounting standards, and identify potential risks or discrepancies. For five-star hotels, the stakes are high, as any financial mismanagement or perceived lack of transparency can lead to reputational damage, loss of customer trust, and potential legal or regulatory penalties.

The study focus on five-star hotels, rather than other categories of hotels, because of by their complex operational structures, significant financial transactions, and the high expectations of their stakeholders. Unlike smaller establishments, five-star hotels often handle diverse revenue streams such as room rentals, conference hosting, and high-end food and beverage services, spa, making their financial systems more intricate. Additionally, these hotels are subject to stricter regulatory scrutiny and must adhere to international standards, which necessitates more robust audit mechanisms. The insights gained from studying these establishments can provide valuable lessons for improving audit practices across the hospitality industry.

The effectiveness of external audits depends on several interrelated factors. Studies from various industries suggest that auditor independence, technical expertise, and adherence to ethical standards are crucial determinants of audit quality. For instance, Knechel et al. (2007) emphasized that audit effectiveness is closely linked to the auditor's ability to manage risks and adapt to client-specific complexities. In the context of the hospitality industry, additional considerations such as industry-specific knowledge, the availability of reliable financial data, and cooperation from hotel management teams play a significant role in shaping audit outcomes.

In Ethiopia, the external audit landscape is shaped by regulatory bodies such as the Accounting and Auditing Board of Ethiopia (AABE) and international standards like the International Standards on Auditing (ISAs). However, challenges such as limited enforcement of regulations, a shortage of skilled auditors, and gaps in industry-specific audit guidance hinder the effectiveness of audits in the hospitality sector. These challenges are compounded by the unique operational dynamics of five-star

hotels, including diverse revenue streams (e.g., room rentals, food and beverage services, and event hosting), high levels of cash transactions, and complex cost structures.

Furthermore, the level of audit effectiveness has broader implications for the growth and development of Ethiopia's hospitality industry. Effective audits not only enhance financial transparency but also strengthen investor confidence, promote better governance practices, and support the industry's long-term sustainability. Therefore, understanding the determinants of external audit effectiveness is crucial for addressing existing challenges and fostering a more resilient and trustworthy financial reporting ecosystem. The study focuses on five-star hotels in Addis Ababa as a case study to explore the factors influencing external audit effectiveness. The study examines key determinants such as auditor qualifications, regulatory frameworks, hotel management cooperation, and the unique characteristics of the hospitality sector. By addressing these issues, the research aims to contribute to the broader discourse on improving audit practices and financial accountability in Ethiopia's hospitality industry.

1.2 Statement of the Problem

External audits are critical for ensuring financial transparency, accountability, and regulatory compliance, particularly in the hospitality industry, where complex revenue structures demand rigorous financial scrutiny. In Ethiopia, five-star hotels play a significant role in the economy by attracting international tourists, business travelers, and foreign investors. However, the effectiveness of external audits in these hotels remains a concern, with implications for financial mismanagement, investor confidence, and regulatory compliance.

Ineffective audits in Ethiopian five-star hotels may lead to reputational damage, reduced foreign investment, and regulatory penalties. If external audits fail to detect financial misstatements or non-compliance, hotel management may engage in practices that undermine financial integrity, weakening stakeholder trust. Additionally, investors—both local and international—rely on audited financial statements to make informed decisions. A lack of reliable audits increases investment risks, discouraging capital inflows into the sector.

Despite the growing importance of Ethiopia's hospitality industry, limited empirical research exists on the determinants of external audit effectiveness in this sector. Most previous studies have been conducted in developed economies, where regulatory oversight, auditor competence, and enforcement mechanisms differ significantly from Ethiopia (DeAngelo, 1981; Francis, 2004; Knechel et al., 2007). Studies by Smith & Johnson (2005) and Williams et al. (2007) emphasize that audit quality is influenced by auditor independence, industry expertise, and management cooperation. However, these studies focused on corporate firms rather than the hospitality industry. Furthermore, Brown & Taylor (2010) highlight that weak audit regulations lead to increased financial misreporting, yet similar research is lacking in Ethiopia's hospitality sector.

Moreover, industry-specific challenges—such as seasonal revenue fluctuations, cash-intensive transactions, and regulatory gaps—further complicate audit processes, yet remain underexplored in Ethiopia. According to the Accounting and Auditing Board of Ethiopia (AABE, 2023), audit violations in various sectors, including hospitality, have increased in recent years due to weak enforcement mechanisms and a shortage of qualified auditors. A 2023 report from AABE highlighted that 40% of audited financial statements in the hospitality sector contained material misstatements or non-compliance issues, underscoring the need for stronger audit practices.

This study seeks to address these concerns by examining key factors influencing external audit effectiveness in five-star hotels in Addis Ababa. It investigates how auditor qualifications, independence, regulatory frameworks, management cooperation, and industry-specific challenges impact audit outcomes. By identifying these determinants, the research aims to contribute to enhancing audit quality and financial accountability in Ethiopia's hospitality industry.

1.3 Research Questions

The study attempts to provide answers to the following research questions:

1. How do auditor qualifications (CPA/CA certifications, industry experience) impact audit quality in the hospitality sector?

2. How does auditor independence affect the effectiveness of external audits in five-star hotels?
3. To what extent does the regulatory framework in Ethiopia support or hinder effective external auditing of five-star hotels?
4. What role does hotel management's cooperation play in ensuring the effectiveness of external audits?
5. How do industry-specific challenges, such as diverse revenue streams and seasonal operations, impact the overall effectiveness of external audits in five-star hotels in Addis Ababa?

1.4 Objectives of the Study

The study aims to achieve the following objectives:

General Objective:

To explore and analyze the determinants of external audit effectiveness in the hospitality industry, focusing on five-star hotels in Addis Ababa.

Specific Objectives:

1. Assess the correlation between auditor qualifications (CPA/CA certifications, industry experience) and audit quality in five-star hotels.
2. To examine the impact of auditor independence (e.g., audit firm rotation, non-audit services) on external audit effectiveness.
3. To evaluate the role of Ethiopia's regulatory framework in enhancing or hindering external audit effectiveness in the hospitality industry.
4. To analyze the influence of hotel management cooperation (e.g., information sharing, transparency) on the reliability of external audit findings.
5. To Investigate the impact of industry-specific challenges (e.g., seasonal revenue fluctuations, cash-based transactions) on audit accuracy and compliance.

1.5 Research Hypotheses

This study investigates the determinants of external audit effectiveness in the hospitality industry, specifically focusing on five-star hotels in Addis Ababa. Based on the research questions and objectives, the following hypotheses are proposed:

1. **H1:** Auditor qualifications and experience have a significant positive impact on the effectiveness of external audits in five-stars hotels.
2. **H2:** Auditor independence is positively and significantly affect external audit effectiveness in the five stars hotels.
3. **H3:** A regulatory framework positively significantly enhances the effectiveness of external audits in five-star hotels.
4. **H4:** Management cooperation positively influences the quality and effectiveness of external audits in five stars hotels.
5. **H5:** Industry-specific challenges, such as seasonality and complex revenue structures, have a negative impact on external audit effectiveness.

1.6 Significance of the Study

This study is significant for several reasons. First, it contributes to the academic understanding of external audit effectiveness, particularly in the context of the hospitality industry, which has received limited attention in prior research. By focusing on five-star hotels in Addis Ababa, the study provides industry-specific insights that address the unique challenges faced by auditors in this sector.

Second, the findings can guide policymakers and regulatory bodies, such as the Accounting and Auditing Board of Ethiopia (AABE), in strengthening audit regulations and enforcement mechanisms. Enhancing the regulatory framework can improve audit practices and financial accountability in the hospitality industry, ultimately promoting economic stability and growth.

Third, the research is beneficial to audit firms and practitioners by identifying critical determinants of audit effectiveness, such as auditor qualifications and management cooperation. These insights can help audit firms improve their methodologies and training programs to deliver higher-quality audits.

Lastly, the study has practical implications for hotel management. Understanding the factors that influence audit outcomes can encourage better cooperation with auditors

and improved financial practices, enhancing the overall governance and reputation of five-star hotels in Ethiopia.

1.7 Scope of the Study

The scope of this study is confined to five-star hotels in Addis Ababa, Ethiopia. These hotels were selected due to their significant financial operations, complex revenue streams, and the rigorous auditing standards required for their financial reporting.

The research aims to identify the key determinants of external audit effectiveness by examining factors such as auditor qualifications, regulatory frameworks, management cooperation, and industry-specific challenges. Data will be collected through a questionnaire distributed to selected sample groups, including hotel managers, senior finance personnel, and external auditors specializing in hotel audits. This method ensures insights are gathered directly from stakeholders involved in the audit process without requiring access to financial statements.

The study focuses on recent financial years to ensure that the findings are relevant to current practices and challenges. The questionnaire responses will be used to understand the trends, practices, and perceptions of external audit processes.

This research excludes smaller hotels and other hospitality establishments outside Addis Ababa, as their operational structures and audit requirements differ significantly from those of five-star hotels.

1.8 Limitations of the Study

While this research aims to provide valuable insights, it is subject to several limitations.

Data Collection Methodology:

The study relies solely on questionnaires distributed to selected hotel managers, senior finance personnel, and external auditors. As such, the findings are based on respondents' perceptions and experiences, which may introduce subjectivity.

Access to Financial Data:

Due to confidentiality and restricted access, the study does not include a review of financial statements or detailed audit reports from the selected hotels. This may limit the depth of analysis regarding the specific audit issues identified during external audits.

Geographic Focus:

The study is confined to five-star hotels located in Addis Ababa, Ethiopia. The results may not be generalizable to smaller hotels, other hospitality establishments, or hotels in different regions with differing operational and regulatory contexts.

Sample Size and Representation:

The findings are limited to the selected sample of respondents, which may not fully represent all five-star hotels in Addis Ababa or the broader population of external auditors working in the hotel industry.

These limitations highlight the need for caution in interpreting the results and suggest opportunities for future research to build on the findings of this study.

1.9 Organization of the Study

This study is organized into five chapters. Chapter One introduces the research topic, providing the background, statement of the problem, research questions, objectives, hypotheses, significance, scope, and limitations. Chapter Two presents a comprehensive review of relevant literature, including theoretical frameworks, empirical studies, and the conceptual framework guiding the research. Chapter Three details the research methodology, covering the research design, sampling techniques, data collection methods, and analytical tools used for the study. Chapter Four presents the findings and analysis, including descriptive statistics, hypothesis testing, and discussion of results. Finally, Chapter Five concludes the study by summarizing key findings, offering recommendations for stakeholders, and suggesting areas for future research. This structured approach ensures a logical flow of information and provides a comprehensive understanding of the determinants of external audit effectiveness in five-star hotels in Addis Ababa.

CHAPTER TWO

2. RELATED LITERATURE REVIEW

Introduction

The purpose of this chapter is to provide a comprehensive review of the theoretical and empirical literature relevant to the study of external audit effectiveness in five-star hotels in Addis Ababa, Ethiopia. The chapter begins by exploring the theoretical foundations that underpin the study, focusing on the concept of auditing, audit effectiveness, schools of thought on audit effectiveness, and underpinning theories of external audit quality. It then delves into agency theory, stakeholder theory, and resource dependency theory. Additionally, it explores determinants of external audit effectiveness in detail, followed by an empirical review. By critically analyzing existing studies, this chapter establishes the basis for understanding the determinants of audit effectiveness in the hotel industry.

2.1 Theoretical Literature Review

2.1.1 Concept of Auditing

The term “audit” has its roots in the Latin word “audire,” which translates to “to listen.” This etymology underscores the essence of auditing as a comprehensive, systematic process through which objective evidence is gathered and evaluated concerning economic events and actions. The primary goal of this process is to establish the degree of consistency between these assertions and predetermined criteria, ultimately communicating the findings to relevant stakeholders (Eilifsen & McKee, 2006).

In the audit framework, two principal parties are engaged: the auditee and the auditor. The auditor is a professional designated to verify and validate the accounting practices and decision-making processes employed by the auditee's management. This verification culminates in an auditor's report, which is often mandated by regulatory frameworks. The auditor is legally bound to uphold the integrity of

accounting standards and affirm that financial reports depict a true and fair representation of a client's financial position through detailed scrutiny of income statements and balance sheets (Carson & Dowling, 2005).

However, the nuances of the auditing process extend beyond these definitions. Zerni (2009) emphasizes two significant characteristics that distinguish audit services from other professional services: firstly, auditors operate under a dichotomous dynamic where they are retained and compensated by the client; yet, the end products of their services are ultimately utilized by third parties—such as investors—who rely on these reports and require a high standard of care from auditors. Secondly, the inherent nature of an audit leads to outcomes that cannot be directly assessed or quantified until after the contract has been established. The tangible outcome of an audit is predominantly the audit report, which typically lacks comprehensive information on the qualitative aspects of the auditing process, making it a somewhat opaque line of work that fundamentally relies on subjective judgment.

Further complicating the understanding of auditing, Pentland (2000) posits that while the discourse surrounding auditing may echo scientific principles, the actual practice of auditing bears only superficial resemblance to scientific endeavors. He argues that auditing should not be perceived merely as an objective representation of facts. Instead, it functions more as an interpretative act—akin to a film critic's review—whereby auditors discern and articulate the underlying realities presented through numerical representations of financial data. The inherently subjective nature of auditing necessitates that auditors apply their judgment and expertise to interpret events and actions for which they may not have direct observational access (Francis, 1994).

The question thus arises: If auditing transcends being a scientific exercise and is entwined with subjectivity—an argument supported by scholars such as Brown (1999), Pentland (2000), and Francis (1994)—what is the intrinsic value of auditing? One of the potential answers lies in the comfort it provides to stakeholders, enabling board members and management to gain assurance regarding their financial decisions. As Brown (1999) elucidates, auditors play a crucial role in providing this reassurance, allowing stakeholders to “sleep soundly at night.”

The concept of auditing can also be perceived as a ritualistic transformation of financial statements from a state that inherently lacks trust to a format that inspires confidence among auditors and the public alike (Pentland, 1993). Watkins (2004) underscores the significance of the processes leading up to the audit report, asserting that evidence collection is a critical aspect of an auditor's professional conduct. Auditors are ethically obligated to provide documentation demonstrating that they have comprehensively evaluated specific financial areas.

Consequently, the responsibilities of auditors extend beyond mere compliance; they are vital to ensuring the reliability of financial information within organizations. This legal mandate transcends the traditional scope of auditing, positioning auditors as essential figures in mitigating contractual friction and agency costs between management and external stakeholders. By examining managerial behaviors and assessing the economic data presented by a company, auditors fulfill a crucial societal function, enhancing the overall quality and transparency of corporate governance (Carson & Dowling, 2005; Chow, 1982).

In the context of external audit effectiveness within the hospitality sector—particularly, five-star hotels in Ethiopia—the implications of these auditing concepts are profound. Auditing not only instills a quality assurance mechanism but also broadens its relevance beyond external stakeholders to encompass a wider array of users, thereby fortifying the trustworthiness of financial reporting across the industry. As the hospitality sector faces unique challenges, the role of auditing cannot be understated. It operates as a vital channel of assurance for external users, thus legitimizing management's operational and financial representations within this evolving economic landscape.

2.1.2 Audit Effectiveness Concept

Audit effectiveness refers to the degree to which an audit achieves its intended objectives and delivers valuable insights regarding the financial statements, compliance, and operational efficiency of an organization. This multifaceted concept encompasses various factors, including the auditor's competency, the methodologies employed, the quality of evidence gathered, and the auditor's ability to communicate findings effectively. An effective audit not only identifies material misstatements but

also provides recommendations for improving internal controls and identifying areas of operational inefficiency. The effectiveness of an audit is often quantified through its ability to detect fraud or errors, the responsiveness of the audited organization to audit findings, and ultimately, the enhancement of stakeholder confidence in the organization's financial reporting practices.

Furthermore, audit effectiveness is influenced by the regulatory environment, the nature of the industry in which the organization operates, and the collaboration between auditors and the entity being audited. In an era of increasing complexity in financial transactions and regulatory requirements, auditors are challenged to remain vigilant and adapt their approaches to risk assessment, data analytics, and ethical considerations. The integration of technology in auditing processes has also revolutionized the landscape, enabling auditors to analyze large volumes of data with greater efficiency and precision. Ultimately, enhancing audit effectiveness necessitates a commitment to continuous improvement, ongoing professional development, and a proactive approach to stakeholder engagement, which collectively fortify the reliability of financial reporting and bolster corporate governance.

2.1.3 Schools of Thoughts of Audit Effectiveness

2.1.3.1 Conceptualizing Audit Effectiveness

Audit effectiveness is primarily concerned with the outcomes of the audit process rather than just adherence to rules or the technical proficiency of auditors. Several key perspectives are critical for understanding audit effectiveness:

2.1.3.2 Auditor Competence and Judgment

A prevalent school of thought posits that the effectiveness of an audit is intrinsically linked to the skills, experiences, and judgment of the auditor. Proponents of this perspective argue that an auditor's ability to assess risk, evaluate evidence, and make informed decisions is pivotal for determining the success of an audit. Such competencies ensure that material misstatements are identified and addressed, thus enhancing the integrity of financial statements. Within this framework, notable

thinkers like Trotman (2008) emphasize that an auditor's expertise plays a fundamental role in fostering accurate financial reporting.

2.1.3.3 Stakeholder Perception and Trust

Another significant school of thought centers on the perceptions of stakeholders regarding audit effectiveness. This perspective recognizes that the way stakeholders—such as investors, regulators, and the public—perceive the reliability of audit findings is critical. Studies by authors such as O'Donnell (2014) highlight the role of auditors in building trust and confidence in financial reporting. They argue that an audit is deemed effective if it serves as a source of assurance for stakeholders that the financial statements are free from material misstatements.

2.1.3.4 Compliance with Regulatory Standards

Compliance with regulatory standards is a cornerstone of effective external auditing. Adherence to established auditing frameworks, such as the International Standards on Auditing (ISA), provides auditors with a structured approach to ensure the accuracy, completeness, and reliability of financial statements. These standards encompass various aspects of the audit process, including risk assessment, materiality considerations, and audit reporting. While compliance with these standards is often viewed as a benchmark for audit quality, its role in achieving audit effectiveness requires deeper exploration.

Audit effectiveness goes beyond mere compliance and involves the practical application of these standards to address the unique circumstances of each audit engagement. For instance, in industries such as hospitality, where revenue streams are diverse and operations are highly seasonal, strict adherence to ISAs may require tailored approaches to assess financial risks effectively. This highlights the importance of auditor judgment and professional skepticism in interpreting and applying regulatory guidelines to achieve meaningful results.

Additionally, the role of local regulatory frameworks, such as Ethiopia's Accounting and Auditing Proclamation (Proclamation No. 847/2014) and oversight by the Accounting and Auditing Board of Ethiopia (AABE), cannot be overlooked. These frameworks aim to align local auditing practices with international standards,

promoting uniformity and enhancing trust in audited financial statements. However, challenges such as limited enforcement capacity, lack of awareness among stakeholders, and inadequate training for auditors can hinder the effectiveness of regulatory compliance.

Moreover, compliance with regulatory standards is closely linked to the independence of auditors. Regulatory frameworks often stipulate rules to mitigate conflicts of interest, such as mandatory audit firm rotation and restrictions on non-audit services. These provisions are essential for maintaining objectivity and safeguarding the credibility of the audit process.

Stakeholder perceptions of regulatory compliance play a critical role in determining audit effectiveness. Regulators, shareholders, and management may view compliance as a necessary, although insufficient, condition for high-quality audits. The emphasis should therefore be on bridging the gap between technical adherence and the practical delivery of insights that meet the needs of all stakeholders.

while compliance with regulatory standards lays a foundation for audit quality, achieving audit effectiveness necessitates a broader focus on adaptability, enforcement, and stakeholder engagement. This holistic perspective ensures that audits not only meet technical requirements but also deliver value by addressing the unique challenges and risks within the audited entity.

2.1.3.5 Regulatory Framework as a Baseline

This perspective emphasizes that compliance with auditing standards forms a baseline for audit effectiveness rather than a definitive measure. Indeed, while meeting regulatory requirements is important, it does not guarantee that an audit achieves its intended purpose. For instance, Cohen (2006) discusses the dangers of a “check-the-box” mentality, suggesting that mere compliance can lead to superficial audits that fail to adequately address the risks and nuances present in an audit engagement.

2.1.3.6 Impact on Financial Reporting Quality

The ultimate goal of auditing is to enhance the quality of financial reporting. This school of thought posits that audit effectiveness can be evaluated based on its contribution to more reliable and transparent financial statements. Scholars like DeAngelo (1981) and Knechel (2009) further develop the idea that effective audits lead to higher esteem for reporting quality, facilitating better decision-making processes by stakeholders.

2.1.4 Underpinning Theories of External Audit Quality

In today's complex business environment, external audits serve as a fundamental mechanism for ensuring the integrity of financial statements. Theories play a vital role in understanding how external audits operate and their implications for financial reporting and governance. Hendriksen (1970) posits that theories comprise systematic constructs that guide inquiry within a particular field of study, providing explanations and directing behavior related to phenomena. In the context of external audits, several theoretical frameworks have emerged to explain and analyze the determinants and efficacy of audit practices. This paper reviews key theories that underpin external audit effectiveness, delineating their contributions and implications.

2.1.4.1 Agency Theory

Agency Theory serves as a foundational framework for understanding the relationship between shareholders (principals) and management (agents) within organizations. The theory posits that shareholders delegate decision-making authority to managers, leading to a principal-agent relationship that is often fraught with potential conflicts of interest. These conflicts arise when managers prioritize personal gains over shareholder interests, thus creating agency costs. The problem intensifies in the hospitality sector, where managers may face pressures to manipulate financial information to meet short-term performance targets or satisfy stakeholders, such as investors or creditors.

The application of Agency Theory in Ethiopia's hospitality industry, however, presents a unique set of challenges that need to be critically examined. In Ethiopia, where the hospitality sector is experiencing rapid growth and development, the regulatory environment primarily governed by the AABE (Accounting and Auditing Board of Ethiopia) poses significant challenges to ensuring effective management oversight.

The AABE guidelines, although aiming to enhance audit quality and financial reporting, are still evolving. Unlike in more developed countries, Ethiopian auditors and financial managers often lack the resources and training to fully comply with international standards such as ISA (International Standards on Auditing), which can exacerbate agency problems within the sector.

Leuz (2003) argued that the quality of financial reporting can be compromised by self-interested behavior from management, especially when there is limited oversight. In Ethiopia, the absence of specialized auditors in the hospitality industry, coupled with a regulatory framework that is still in its nascent stages, means that the incentives for managers to engage in earnings management or manipulate financial reports may be stronger. Furthermore, local audit regulations often lack the rigor needed to detect such behaviors, leaving shareholders vulnerable to unreliable financial reporting.

The role of external auditors becomes critical in mitigating these agency problems. Auditors serve as intermediaries, tasked with providing assurance to shareholders that financial statements are accurate and free from managerial manipulation. However, the effectiveness of external audits in Ethiopia is often hindered by several factors. First, auditors in the hospitality sector are frequently generalists rather than industry specialists, which limits their ability to detect industry-specific risks and financial misstatements. Second, limited enforcement of AABE guidelines and the lack of professional development opportunities for auditors reduce the effectiveness of audits in curbing agency costs.

In Ethiopia, while AABE's guidelines aim to align managerial and shareholder interests, the regulatory framework has not yet evolved sufficiently to ensure compliance with global standards. This gap creates an environment where auditors may not have the tools or expertise to fully address the agency problems inherent in the Ethiopian hospitality sector.

2.1.4.2. Stewardship Theory

Contrary to Agency Theory, Stewardship Theory offers a more optimistic perspective of the relationship between management and stakeholders. It posits that managers

act as stewards of the organization, motivated by a desire to achieve corporate goals rather than personal benefit. Vanden (2004) suggests that managers are inclined to prioritize the success of the organization, driven by intrinsic factors such as the desire for professional achievement and recognition.

Within this framework, external audits serve as a supportive mechanism that enhances the credibility of financial statements, affirming the effective stewardship of resources by management. By providing independent verification of financial information, external auditors bolster stakeholder trust and help foster a cooperative relationship between management and investors (Chow, 1982). Consequently, Stewardship Theory reinforces the notion that external audits are instrumental in promoting transparency and accountability, contributing to the overall effectiveness of financial reporting.

2.1.4.3. Signaling Theory

Signaling Theory posits that organizations communicate their quality and reliability through certain signals to mitigate information asymmetry. In the context of external audits, companies undergo audits to signal their commitment to transparent reporting and sound corporate governance to stakeholders. The presence of an external audit serves as a credible signal that enhances the perceived reliability of a firm's financial disclosures.

Audited financial statements provide assurance not only to investors but also to other stakeholders, including creditors and regulatory bodies (Spence, 1974). This signaling mechanism plays a crucial role in establishing trust, particularly for organizations seeking to raise capital or enhance their market reputation. The effectiveness of audits can thus be understood in terms of their ability to provide a reliable signal of quality in financial reporting, reducing uncertainty among stakeholders regarding the organization's financial health.

2.1.4.4. Institutional Theory

Institutional Theory explores how institutional environments shape organizational behaviors and practices, including auditing processes. It posits that organizations are

influenced by norms, rules, and beliefs prevalent in their institutional context, which affects their approach to financial reporting and auditing.

In many jurisdictions, adherence to external auditing standards is a regulatory requirement, thus influencing organizations to engage in audits to comply with institutional expectations. This compliance reflects not just a desire for legitimacy but also an understanding that effective audit processes serve to enhance accountability and foster stakeholder confidence in financial reporting. The effectiveness of external audits, therefore, can be seen as a function of the institutional pressures that compel organizations to maintain high standards of financial accountability and transparency (DiMaggio & Powell, 1983).

2.1.4.5 Policeman Theory

The Policeman Theory posits that auditors act as watchdogs whose primary responsibility is to detect and prevent fraud within an organization. This traditional view assumes that auditors are accountable for identifying misstatements and irregularities, thereby protecting stakeholders from fraudulent financial reporting (Hayes et al., 2005). Although this theory emphasizes the auditor's role in safeguarding financial integrity, it has been criticized for oversimplifying the auditing function by focusing solely on fraud detection rather than evaluating the fairness of financial statements (Porter, 1993). Despite these criticisms, the Policeman Theory remains relevant in the context of regulatory compliance and public expectations of auditors, particularly in industries like hospitality, where financial complexities and high cash transactions can increase the risk of fraud.

2.1.4.6 Social Capital Theory

Social Capital Theory examines how networks, relationships, and trust within a community influence organizational behavior, including financial reporting and auditing practices. According to Putnam (1995), social capital consists of trust, norms, and networks that facilitate coordinated actions. In the context of external audits, social capital impacts auditor-client relationships, management cooperation, and the perceived credibility of audit outcomes (Nahapiet & Ghoshal, 1998). For instance, strong networks and trust between auditors and hotel management can enhance information sharing, leading to more accurate audits. However, excessive

familiarity may compromise auditor independence, affecting audit effectiveness. This theory provides valuable insights into how relational dynamics influence audit processes and outcomes in five-star hotels.

2.1.4.7 Theory of Inspired Confidence

Proposed by Limperg (1932), the Theory of Inspired Confidence explains the relationship between auditors and stakeholders by emphasizing the trust and confidence placed in auditors' work. According to this theory, stakeholders, including investors, creditors, and regulators, expect auditors to provide an independent and objective assurance that financial statements present a true and fair view of an organization's financial position. Auditors, in turn, must meet these expectations to maintain public trust and credibility (Limperg, 1985). This theory is particularly relevant to the hospitality industry, where transparent financial reporting is crucial for maintaining stakeholder confidence amidst complex revenue structures and operational risks. It underscores the ethical responsibility of auditors to uphold public trust, reinforcing the importance of independence and competence in achieving audit effectiveness.

2.1.4.8 Lending Credibility Theory

Lending Credibility Theory suggests that external audits enhance the credibility of financial statements by providing an independent verification of management's assertions. According to Mautz and Sharaf (1961), the primary function of an audit is to add credibility to financial reports, increasing stakeholder confidence in the accuracy and reliability of financial information. This theory is grounded in the idea that audited financial statements are more trustworthy, influencing decision-making processes for investors, creditors, and other stakeholders. In the context of five-star hotels, where financial transparency is critical for attracting investment and maintaining regulatory compliance, lending credibility theory highlights the strategic importance of external audits in enhancing financial accountability and stakeholder trust.

2.1.5 Determinants of External Audit Effectiveness

2.1.5.1 Auditor Qualifications

Auditor qualifications are foundational to the quality and effectiveness of external audits. In the realm of five-star hotels, the auditors must possess not only general auditing skills but also specialized knowledge related to the hospitality sector. Key factors include:

Professional Credentials

Auditors engaged in five-star hotels should hold recognized professional certifications such as Certified Public Accountant (CPA) or Chartered Accountant (CA). These qualifications ensure that auditors are well-versed in auditing standards, ethical guidelines, and financial reporting requirements. Furthermore, additional certifications related to the hospitality industry, such as Certified Hotel Administrator (CHA), can enhance their understanding of operational intricacies unique to hotels.

Experience in Hospitality

Experience plays a crucial role in assessing the effectiveness of an audit. Auditors with a background in the hospitality sector possess contextual knowledge about financial transactions, revenue management, and cost structures relevant to five-star hotels. This expertise enables auditors to identify potential areas of risk and ensure compliance with applicable regulations, ultimately enhancing audit effectiveness.

Continuous Professional Development

In an ever-evolving industry, ongoing training and professional development are essential for auditors. Staying updated with the latest accounting standards and industry trends ensures auditors can apply current best practices, thereby improving the quality of audits conducted in five-star hotels.

2.1.5.2 Regulatory Frameworks

The effectiveness of external audits in five-star hotels is also influenced by the regulatory frameworks governing the hospitality sector. Several factors come into play:

Compliance with Local and International Standards

Five-star hotels must adhere to both local regulations and international standards such as International Financial Reporting Standards (IFRS) and the Generally Accepted Accounting Principles (GAAP). An effective audit requires a comprehensive understanding of these frameworks, as non-compliance can lead to significant financial penalties and damage to reputation.

Industry-Specific Regulations

The hospitality sector is governed by specific regulations, including those related to health and safety, environmental compliance, and labor laws. Auditors must be familiar with these regulations to ensure that audits not only focus on financial accuracy but also consider compliance with industry-specific requirements.

Impact of Regulatory Changes

The hospitality sector is susceptible to regulatory changes influenced by economic, political, and social factors. Auditors must be agile in adapting to these changes to ensure that their audit practices remain relevant and compliant, thus enhancing overall audit effectiveness.

2.1.5.3 Management Cooperation

Successful external audits depend significantly on collaboration between auditors and hotel management. This cooperation can be analyzed through:

Openness and Transparency

Management's willingness to be open and transparent with auditors is vital for effective audits. Providing complete and accurate financial information, along with intuitive access to operational data, allows auditors to conduct thorough risk assessments and audits.

Management Attitude Toward Audits

The perception that management has toward the audit process can significantly impact its effectiveness. A culture that values audits as a tool for improvement rather than mere compliance can lead to more fruitful interactions between auditors and hotel management, resulting in valuable insights and recommendations.

2.1.5.4 Industry-Specific Challenges

Five-star hotels face unique challenges that can impact the effectiveness of external audits. These challenges include:

Seasonality and Revenue Recognition

The hospitality sector is characterized by fluctuating demand, leading to complexities in revenue recognition and financial reporting. Auditors must understand how seasonality affects financial performance and ensure that revenue is recognized accurately, reflecting the true economic situation of the hotel.

Diverse Revenue Streams

Five-star hotels often generate revenue from multiple sources, including room service, restaurants, events, and ancillary services. Auditors must have the expertise to assess and audit these diverse revenue streams, ensuring comprehensive coverage and accuracy in financial statements.

2.2 Empirical Literature Review

Auditor Competence in Hospitality

Smith and Johnson (2005) conducted a study titled "Audit Quality and Industry Specialization," which explored how an auditor's specialization in a particular industry influences the quality of their audits. Their research found that auditors who specialized in a specific industry, such as hospitality, demonstrated a deeper understanding of that sector's operational and regulatory complexities, leading to more accurate financial reporting. In developed countries, where there is a stronger regulatory framework and more experienced auditors, industry-specialized auditors can address sector-specific risks effectively. However, in Ethiopia, particularly in the hospitality industry, the lack of auditors with specialized knowledge in hospitality

means that the industry-specific risks and unique operational features may not be adequately addressed during audits. This gap in specialized knowledge in the Ethiopian context could lead to lower audit quality, potentially impacting the reliability of financial statements in the hospitality sector. The Ethiopian government and professional organizations, such as the AABE, should focus on fostering the development of specialized audit competencies tailored to the needs of the hospitality industry.

Audit Tenure and Quality in Ethiopia's Hospitality Sector

Williams et al. (2007) explored the relationship between audit tenure and audit quality in their study "The Impact of Audit Tenure on Financial Statement Accuracy." Their findings showed that shorter audit tenures can limit an auditor's ability to understand a client's operations, while excessively long tenures can lead to complacency and decreased independence. This imbalance can undermine the quality of the audit and the accuracy of financial reporting. In Ethiopia, auditors in the hospitality sector often face limited tenure due to frequent rotations mandated by local regulations, yet this may not necessarily improve audit quality. Frequent rotations without sufficient training in industry-specific risks could negatively impact the reliability of audit reports. This calls for a deeper investigation into the effects of audit tenure in the Ethiopian context and how the rotation of auditors impacts audit outcomes in the hotel sector. Additionally, as many Ethiopian auditors work with multiple industries, their ability to specialize in the hospitality industry may be compromised, leading to potential conflicts between audit tenure and audit quality.

Regulatory Frameworks and Transparency in Ethiopia

Brown and Taylor (2010) examined the role of audit regulations in promoting market transparency and stakeholder confidence. Their study underscored that regulatory compliance, such as adherence to Sarbanes-Oxley in the U.S. and IFRS globally, fosters accountability in audit practices, enabling stakeholders to assess the quality and reliability of auditors. However, while such frameworks are enforced in developed countries, Ethiopia's audit regulatory framework, particularly the AABE regulations, remains underdeveloped. Ethiopian auditors may face challenges in fully adhering to global standards like ISA (International Standards on Auditing) due to

limited resources, training, and enforcement mechanisms. This discrepancy may result in weaker audit practices, affecting transparency and accountability, particularly in the hospitality sector. Comparatively, while ISA aims to provide a consistent framework for auditing across different countries, Ethiopia's limited regulatory resources hinder the full adoption of these global standards. More research is needed to explore how the Ethiopian hospitality industry can adopt global audit regulations without compromising local practices and realities.

Harmonization of Global Standards and Local Realities

Garcia (2012) explored the challenges and progress in harmonizing global auditing standards through her study "Globalization and Harmonization in Auditing Standards." The research highlighted that the adoption of ISA standards faces significant barriers in developing countries due to differences in regulatory environments, economic conditions, and the capacity of local audit firms. This is especially relevant for Ethiopia, where auditors in the hospitality sector often face challenges in fully implementing ISA due to limited expertise, training, and resources. Although ISA provides a framework for consistency in audit practices, Ethiopian auditors may struggle with the practical application of these standards due to a lack of capacity-building programs and local adaptations of global standards. A tailored approach that accounts for Ethiopia's unique challenges—such as regional economic conditions, insufficient regulatory oversight, and limited availability of specialized training—could help bridge the gap between global standards and local practices.

Determinants of Audit Quality in Ethiopia

Anderson (2015) provided a comprehensive review of the determinants of audit quality, emphasizing factors such as the auditor's education, professional training, and access to advanced analytical tools. Anderson's research suggested that factors like audit sampling techniques, audit tools, and auditor expertise directly impact the quality of audits. In Ethiopia, these factors may not be as prominent, particularly in the hospitality sector, where auditors often lack access to advanced auditing tools and are not sufficiently trained in hospitality-specific accounting practices. The absence of continuous professional development and advanced audit tools further limits the ability of Ethiopian auditors to ensure high-quality audits. This underscores

the need for the Ethiopian auditing profession to invest in capacity-building initiatives that provide auditors with the necessary training, tools, and industry-specific expertise, particularly in the context of the hospitality industry, to improve audit quality and financial statement reliability.

Earnings Management and Audit Effectiveness

Thompson et al. (2019) examined the implications of earnings management on audit quality in their study "Earnings Management and Its Implications for Audit Quality." They found that earnings management practices—such as fraudulent accounting, accruals management, and real earnings management—pose significant challenges for auditors. In Ethiopia's hospitality sector, where financial reporting is often informal and may lack transparency, earnings management can be a prevalent issue. Given that many Ethiopian auditors may not possess sufficient expertise in forensic accounting or the advanced analytical techniques required to detect such practices, there is a significant risk that earnings management may go undetected. Training auditors in forensic accounting and enhancing their knowledge of industry-specific risks could improve their ability to detect and address earnings management, thereby improving audit quality in the Ethiopian hospitality sector.

Industry Specialization and Audit Effectiveness in Ethiopia

Roberts and Clarke (2021) examined the role of industry expertise in enhancing audit effectiveness in their study "Industry Expertise and Audit Effectiveness." Their research found that industry-specialized auditors were better able to identify financial misstatements compared to generalist auditors. This is particularly important in sectors like hospitality, where the complexity of financial transactions and industry-specific risks requires specialized knowledge. In Ethiopia, the lack of specialized auditors in the hospitality sector may result in reduced audit effectiveness, leading to undetected financial misstatements. Ethiopia should focus on developing industry-specific training programs for auditors, particularly in sectors like hospitality, to improve audit outcomes and increase stakeholder confidence in the financial statements of Ethiopian hotels.

2.3 Conceptual Framework of the Study

According to Mugenda and Mugenda (2008), a conceptual framework is a concise and brief presentation of the linkage between the hypothesized relationships and the real ideas of investigations or thoughts. The conceptual framework of the study specifies the nature of the hypotheses being investigated.

In this study, the dependent variable is Audit Effectiveness, which is influenced by several independent variables: Auditor Qualifications, Auditor Independence, Regulatory Frameworks, Management Cooperation, and Industry-Specific Challenges.

The relationships between these variables are based on insights from the review of relevant literature. The conceptual framework proposes that Audit Effectiveness is shaped by these critical factors, which are elaborated below:

Dependent Variable: Audit Effectiveness

Audit effectiveness is defined as the extent to which an audit achieves its objectives, including detecting and preventing material misstatements, ensuring compliance with regulations, and providing stakeholders with reliable financial information.

Independent Variables:

1. Auditor Independence

Independence is crucial in ensuring that auditors provide unbiased opinions on the financial statements, unaffected by relationships with the audited entity. It includes both independence in fact, which means the auditor's actual objectivity, and independence in appearance, which refers to the perception that the auditor is unbiased by external pressures. High levels of auditor independence increase the reliability of audit findings and enhance the overall effectiveness of the audit process. This is particularly significant in the hospitality industry, where auditors must navigate industry-specific challenges and ensure the accuracy of financial reporting amidst complex revenue structures and operational risks.

2. Auditor qualifications

Auditor qualifications include the educational background, certifications, and specialized training auditors possess. Higher qualifications ensure auditors

have the knowledge and skills to identify and address complex auditing issues, improving audit effectiveness.

3. **Regulatory Frameworks**

Regulatory frameworks refer to the rules, standards, and guidelines that govern the auditing profession. Strong and enforceable regulatory frameworks enhance audit effectiveness by ensuring consistency, transparency, and accountability in auditing practices.

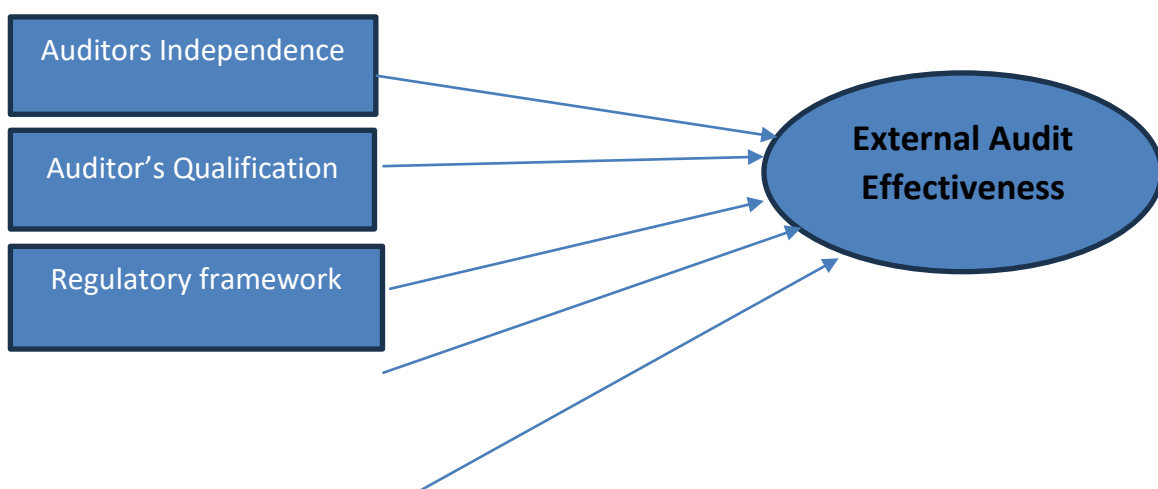
4. **Management Cooperation**

Management cooperation involves the willingness and readiness of the management to provide auditors with complete, accurate, and timely information. A cooperative management team facilitates the audit process and reduces the likelihood of information asymmetry.

5. **Industry-Specific Challenges**

Industry-specific challenges encompass the unique risks and complexities faced by auditors in the hospitality sector. Examples include cash-intensive operations, seasonal variations, and regulatory compliance requirements.

Figure 1 Conceptual framework



Industry specific
challenges

Management **support**

Source: Adapted from DeAngelo (1981), Francis (2004), Knechel et al. (2007), Smith and Johnson (2005), Williams et al. (2007), Brown and Taylor (2010), Martin and Lee (2017), and Roberts and Clarke (2021).

CHAPTER THREE

3. RESEARCH METHODS AND DESIGN

Introduction

Research methodology has necessary to provide a reliable and valid research study. the student researcher discussed and deliver the method that was used to obtain related information in order to conduct descriptive research. This chapter incorporates research approach, research design, data type and sources, target population and sample size determination, sampling techniques, methods of data collection, constructs measurement such as reliability and validity, the methods of data analysis and ethical consideration.

3.1 Research Design

The study adopted a descriptive and explanatory research design to investigate the determinants of external audit effectiveness in the hospitality industry in Ethiopia, specifically focusing on five-star hotels in Addis Ababa. The researchers chose for a descriptive research design along with explanatory due to its appropriateness for depicting the variables related to external audit effectiveness. This approach enables a comprehensive description of factors influencing audit processes, quality, and outcomes within the context of five-star hotels.

Additionally, an explanatory research design was employed to elucidate the cause-and-effect relationships between the dependent variable of external audit effectiveness and various independent variables, such as auditor expertise, regulatory compliance, internal control systems, and organizational culture. This dual design facilitates a deeper understanding of how different determinants interact and contribute to the overall effectiveness of external audits within this sector.

To collect data, a quantitative research approach were adopted, utilizing structured questionnaires to finance manager, senior finance and external audit company. The questionnaires were carefully designed to capture relevant information on the determinants of external audit effectiveness, ensuring that the data collected were both reliable and valid. For data analysis, regression analysis was utilized as the primary analytical tool. This method allows for the examination of the relationships between the independent variables and the dependent variable while controlling for other influencing factors. By applying regression analysis, the study aims to quantify the impact of the identified determinants on external audit effectiveness, providing insights that can inform policy and practice within the Ethiopian hospitality sector.

3.2 Research Approach

This study adopted a quantitative research approach primarily because it was designed to objectively measure perceptions of external audit effectiveness among a standardized sample of finance managers, assistant finance managers, senior accountants, and external auditors across sample selected five-star hotels. A quantitative approach allows for the collection of numerical data that can be statistically analyzed, making it well-suited for examining the relationships between various determinants of audit effectiveness (such as auditor expertise, regulatory compliance, auditor independency, and specific challenge) and the dependent variable, external audit effectiveness.

By using structured questionnaires, the study can gather data that is consistent and comparable across the selected hotels and auditor firms, thus ensuring objectivity and standardization. Additionally, the use of a 5-point Likert scale in the questionnaires helps to capture the intensity of respondents' perceptions, making it easier to quantify the impact of the different determinants.

3.3 Data Type and Sources

In this study Primary sources were used in asking information for the study. Primary data were obtained from a structured closed ended/ self-administered questionnaire .

3.4 Target Population and Sample Size Determination

The targeted population for this study was the finance-related personnel working in five-star hotels in Addis Ababa. These personnel include Finance Managers, Assistant Finance Managers, and Senior Accountants who are directly involved in the financial management and external audit processes of their respective hotels. These professionals are integral to understanding the determinants of external audit effectiveness in the hospitality industry.

The total number of five-star hotels in Addis Ababa is 13, based on information from sources such as MakeMyTrip and Tripadvisor. To make the research manageable, the study focuses on 46% of the hotels, equivalent to 6 hotels, selected through a simple random lottery method to ensure equal representation. These hotels are Hyatt Regency Addis Ababa, Radisson Blu Hotel Addis Ababa, Golden Tulip Addis Ababa, Elilly International Hotel, Intercontinental Addis Hotel, and Marriott Executive Apartments Addis Ababa.

For respondents, three finance-related personnel were selected from each hotel: Finance Manager, Assistant Finance Manager, and Senior Accountant. This selection ensures a comprehensive understanding of the auditing process from multiple perspectives within each hotel.

Additionally, the study includes external auditors firms that provide auditing services to these five-star hotels. Out of the total external auditor firms available (in 2020 study references 132 external audit firms licensed and registered in Addis Ababa by

the Accounting and Auditing Board of Ethiopia (AABE), a sample of 6 firms is selected using a simple random lottery method. These 6 firms are known to provide auditing services to five-star hotels in Addis Ababa. It is essential to note that not all of these 132 firms provide auditing services to five-star hotels. The 132 firms, as registered with the Accounting and Auditing Board of Ethiopia (AABE), cover a broad spectrum of industries, and many of them do not specialize in hospitality or have experience in auditing hotels. Given the specific focus of my research on the determinant of external audit effectiveness on auditing financial statements for five-star hotels in Addis Ababa, it is critical to target those external auditors who have direct and relevant experience in this particular industry. There are only 13 five-star hotels in Addis Ababa, and the number of auditors with specialized expertise in the hospitality sector is limited.

To ensure the selection of the most knowledgeable and qualified firms for the study, I employed a simple random lottery method to select six external audit firms. These six firms are known for their direct experience in auditing five-star hotels. This focused selection criterion ensures that the auditors included in the study possess the requisite expertise and insight into the unique challenges faced by five-star hotels in Addis Ababa, thus providing valuable data to address the research questions and objectives of the study.

The sample size was considered as representative of the selected five stars hotel and external auditors' employees and this would expect as large enough to allow for precision, confidence and to generalize the research finding. Accordingly, 36 respondents were selected out of 6 five stars hotel and 6 external auditors firms). So that, the study was used the following sample size determination formula. It is calculated as follows: $n = \frac{N}{1 + N(e)^2}$, where, n = sample size, N = Population size, and e = the margin of error. Then at 5% significance level, the total sample size $n = \frac{39}{1 + 39(0.0025)}$ is approximately equal to 36 employees (Finance manager, Assistance finance manager, senior finance and external auditors).

3.5 Sampling Techniques

Non-probability sampling techniques were employed for this study. Specifically, a purposive non-probability sampling method was used, sometimes referred to as

judgment sampling. Respondents were selected based on their knowledge and experience relevant to the research topic. The researcher purposefully chose Finance Managers, Assistant Finance Managers, Senior Accountants, and external auditors because of their ability to provide rich and relevant information crucial for achieving the study's goals.

The focus was on the quality of respondents and their expertise, which ensures the data collected is insightful for analysis and interpretation. Questionnaires were distributed directly to employees in the selected hotels and external auditor firms until the desired number of responses was achieved. This method allowed the study to target individuals who could provide the most valuable insights into the determinants of external audit effectiveness.

3.6 Methods of Data Collection

Primary data was collected using a well-designed close-ended questionnaire designed on an ordinal scale of measurement. The questionnaire items were adapted to fit the context of the hospitality industry. Each item was measured using a 5-point Likert scale marked as 1= Strongly Disagree, 2= Disagree, 3= Somehow Agree, 4= Agree, 5= Strongly Agree. A high score indicates a strong perception of the effectiveness of external audit determinants, while a low score suggests a weaker perception. This structured approach ensures the consistency and reliability of the data collected for analysis.

3.7 Reliability and Validity

Reliability refers to the consistency and stability of the measurement instrument used in this study. To ensure reliability, a structured questionnaire was pilot tested with a small sample of respondents, including hotel finance staff and external auditors. Feedback from the pilot test was used to refine the questionnaire for clarity and precision. The internal consistency of the questionnaire was assessed using Cronbach's Alpha, with a threshold of 0.70 or higher considered acceptable. This statistical measure ensured that the items within each determinant—auditor qualifications, auditor independency, regulatory frameworks, management cooperation, and industry-specific challenges—were consistently measuring the

same concept. The use of a standardized 5-point Likert scale across all items further enhanced uniformity in responses and comparability.

Validity, on the other hand, ensures that the questionnaire measures what it is intended to measure. Content validity was achieved by aligning the questionnaire items with the key determinants of audit effectiveness, incorporating input from experts in auditing and hospitality management. Construct validity was ensured by mapping each questionnaire item to theoretical constructs derived from a thorough literature review and theoretical framework. Additionally, face validity was established through reviews by academic advisors and professionals, confirming the appropriateness of the items. Triangulation of data collection from both hotel staff and external auditors further strengthened the validity by providing a comprehensive perspective on audit effectiveness in five-star hotels.

3.8 Methods of Data Analysis

The collected data was processed, analyzed, and interpreted to derive meaningful insights regarding the determinants of external audit effectiveness. The analysis was conducted using STATA software, chosen for its robust features in handling quantitative data. Both descriptive and inferential statistical methods were employed, including descriptive analysis, correlation analysis, and multiple regression analysis.

A. Descriptive Analysis:

Descriptive statistics provided a summary of the data, presenting frequency distributions and percentages to capture categorical variables. Summary statistics, including means and standard deviations, were calculated for continuous variables to depict the central tendencies and variability in the data. This analysis offered a condensed view of the dataset's characteristics.

B. Correlation Analysis:

Pearson's correlation coefficient was used to examine the relationships between the dependent variable (Audit Effectiveness) and the independent variables (Auditor Qualifications, Regulatory Frameworks, Management Cooperation, and Industry-Specific Challenges). This analysis assessed the strength and direction of linear

relationships, determining whether positive, negative, or no associations existed between the variables.

C. Multiple Regression Analysis:

Multiple regression analysis was conducted to investigate the influence of independent variables on the dependent variable (Audit Effectiveness). This approach allowed for the determination of the relative contribution of each factor and the identification of statistically significant predictors of audit effectiveness in the hospitality industry. The model specification for this study is as follows:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \epsilon$$

Where:

Y = Audit Effectiveness (dependent variable)

β_0 = Constant (intercept)

$\beta_1, \beta_2, \beta_3, \beta_4$ = Coefficients of the independent variables

X1 = Auditor Qualifications

X2 = Auditor Independency

X3 = Regulatory Frameworks

X4 = Management Cooperation

X5 = Industry-Specific Challenges

ϵ = Error term

3.9 Ethical Considerations

This study adhered to ethical principles to ensure integrity and protect participants. Informed consent was obtained, and participation was entirely voluntary, with the right to withdraw at any time without consequences. Confidentiality and anonymity were strictly maintained, using codes instead of identifiable information to protect the privacy of participants and organizations. Care was taken to design non-invasive questions and avoid any harm, whether physical, psychological, or professional. Data collection and analysis were conducted with transparency and accuracy, avoiding

any misrepresentation or manipulation. The study respected cultural norms and professional boundaries specific to the hospitality industry in Ethiopia and complied with institutional and national ethical guidelines. Approval from relevant ethical review boards was secured, and potential conflicts of interest were disclosed and managed appropriately. These measures ensured that the research was conducted responsibly and respectfully, fostering trust and cooperation among all stakeholders.

CHAPTER FOUR

4. DATA ANALYSIS, PRESENTATION AND DISCUSSION

Introduction

This chapter presents the analysis and interpretation of the data collected to investigate the determinants of external audit effectiveness in the hospitality industry, with a focus on five-star hotels in Addis Ababa. The analysis uses STATA software, enabling detailed statistical examination and robust model estimation.

The dependent variable in this study is Audit Effectiveness, while the independent variables include Auditor Qualifications, Auditor Independency, Regulatory Frameworks, Management Cooperation, and Industry-Specific Challenges. The

analysis is structured to explore the relationships between these variables and to identify the key factors influencing external audit effectiveness in the Ethiopian hospitality sector.

The chapter begins with descriptive statistics to summarize the data and provide insights into the characteristics of the sample. This is followed by inferential analysis, including regression modeling, to evaluate the significance and strength of the relationships between the dependent and independent variables. Diagnostic tests are performed to ensure the reliability and validity of the statistical models.

4.1 Reliability Test Result

Reliability refers to the degree to which measures are free from random error, and therefore, yield consistent results Zikmund (1997). The scales of the five variables were checked for internal consistency or reliability using Cronbach's Alpha in STATA version. The results of the tests for each scale are shown in table 4.1 The instrument was pilot tested on 18 employees of Private Certified Audit Firms and 18 employees of five stars hotel within the intended sample. The responses of respondents were scored and the reliability of the tool was determined using Cronbach's Alpha. The questionnaire has a total of 43 questions as shown in the below table for external auditors and 30 for five stars hotels . The result indicates that the value of Cronbach's alpha equals to 0.8 proving that the scale is indeed reliable Hair (1992).

Table 1 Reliability statistics

Variables	Number of items	Cronbach's Alpha	Internal Consistency
Auditors' Qualification	12	0.734	Acceptable
Auditors' Independence	10	0.759	Acceptable
Regulatory Framework	12	0.775	Acceptable
Management Cooperation	12	0.759	Acceptable
Industry Specific Challenge	13	0.787	Acceptable

Audit Effectiveness 14 0.852 Very good

Source: Research data (2024)

4.2 Descriptive Statistics

Descriptive analysis is a set of procedures for gathering, measuring, classifying, computing, describing, synthesizing, analyzing and interpreting systematically acquired quantitative data.

4.2.1 Demographic Characteristics

Demographic analysis of the respondents was done in order to describe the characteristics of the respondents in more details. To make it more specific, this part of the study analyzes the proportion of female and male respondents, their age, experience, educational level, work experience, and current position in external Audit Firms and hotel staffs.

Table 2 Demographic Characteristics external auditors

Gender	Freq.	Percent	Cum.
Female	7	38.89	38.89
Male	11	61.11	100
Total	18	100	
Age	Freq.	Percent	Cum.
35-40	14	77.78	77.78
40-45	4	22.22	100
Education level	Freq.	Percent	Cum.
Masters	6	33.33	33.33
Degree	12	66.67	100
Work Experience	Freq.	Percent	Cum.
11-15	6	33.33	33.33
above 15	12	66.67	100
Occupation	Freq.	Percent	Cum.
Junior Auditor	3	16.67	16.67
Senior	9	50	66.67

Auditor			
Audit Manager	6	33.33	100

Source: Research data (2024)

The sample consists of 18 respondents, with a majority being male (61.11%) and aged between 35-40 years (77.78%). In terms of education, most hold a bachelor's degree (66.67%), and a significant portion has extensive work experience, with 66.67% having over 15 years of experience. Occupation-wise, the majority are senior auditors (50%), followed by audit managers (33.33%), and junior auditors (16.67%). This indicates that the sample is composed of experienced, well-educated professionals, primarily in senior auditing roles, with a notable representation of individuals in the 35-40 age group.

Table 3 Demographic characteristics hotel staff

Gender	Freq.	Percent	Cum.
Female	10	55.56	55.56
Male	8	44.44	100
Total	18	100	
Age	Freq.	Percent	Cum.
30-35	8	44.44	44.44
35-40	10	55.56	100
Education level	Freq.	Percent	Cum.
Masters	6	33.33	33.33
Degree	12	66.67	100
Work Experience	Freq.	Percent	Cum.
Nov-15	6	33.33	33.33
above 15	12	66.67	100
Occupation	Freq.	Percent	Cum.
Finance manager	6	33.33	33.33
Ass.Finance manager	6	33.33	66.67
Senior Finance	6	33.33	100

Source: Research data (2024)

The demographic data highlights key characteristics of the participants. The sample consists of 18 individuals, with 55.56% being female and 44.44% male. In terms of age, 44.44% are between 30-35 years old, while 55.56% are in the 35-40 age group. Regarding education, 33.33% hold a Master's degree, and 66.67% possess a Bachelor's degree. Work experience is distributed as 33.33% with 0-15 years and 66.67% with more than 15 years. Finally, the distribution of occupations shows equal representation among Finance Managers, Assistant Finance Managers, and Senior Finance staff, each constituting 33.33% of the participants. This indicates a diverse but balanced sample in terms of gender, age, education, and professional background.

4.2.2 Descriptive Statistics on Determinants of external Audit Effectiveness

Descriptive analysis is used to obtain existing facts regarding the employees' level of agreement on the determinants of Audit effectiveness in external audit Firms using five indicators of external audit effectiveness namely, Auditor Qualifications, Auditor Independence, Regulatory Frameworks, Management Cooperation, and Industry-Specific Challenges. This section presents the respondents' perception on the independent and dependent variable. The respondents were asked to indicate the extent to which they agreed and disagreed to statements relating to the variables under study on a five-point Likert scale (1=Strongly Disagree to 5= strongly agree).

It is taken to identify the differences among the variables and the square root of standard deviation shows the variance. The standard deviation is therefore a measure of how well the mean represents the data. Whereas, small standard deviation means (relative to the value of the mean itself) indicates that the data points are close to the mean. In this case, larger standard deviation (relative to the mean) indicates that the data points are distant from the mean (i.e. the mean is not an accurate representative of the data) Andy (2010). Similarly, high standard deviation means that the data are wide spread, which means that employee give variety of opinion and the low deviation means that employee express close opinion.

4.2.2.1 Descriptive Statistics on Independent and Dependent variable

Series of forty three questions were presented to respondents to rate their level of agreement with each statement. The questions are designed to examine the level of independent and dependent variable of the employees in external Audit Firms. The below table displays the respondent's level of agreement against their external audit effectiveness based on each variable.

Table 4 Summary of Response for each variable (external Auditors)

Auditor Qualifications	N	Mean	SD
External auditors qualifications and certifications enable us to effectively audit five-star hotels.	18	3.944	0.802
External Auditors firms allocate sufficient resources and experienced personnel for auditing financial statements in the hospitality industry.	18	3.889	0.676
Understanding industry-specific risks enhances our effectiveness during audits.	18	4.222	0.732
The team has extensive experience in auditing businesses with complex revenue streams like those in the hospitality industry.	18	4.611	0.502
familiarity with advanced auditing tools and techniques contributes to our effectiveness.	18	4.056	0.639
consistently evaluate and enhance our skills to align with changes in the hospitality industry.	18	4.167	0.514
understanding of hospitality trends helps us anticipate risks and provide valuable insights.	18	4.611	0.502
Auditor Independence			
Auditors consistently maintain objectivity throughout the audit process.	18	4.056	0.725
The auditor's relationship with hotel management does not compromise audit independence.	18	4.111	0.758
Our audit firm enforces strict policies to ensure the independence of external auditors.	18	4.389	0.608

Providing non-audit services to clients does not affect our independence during audits.	18	4.111	0.676
Regular rotation of audit teams reduces the risk of familiarity threats to independence.	18	4.333	0.767
Regulatory Frameworks			
ensure audits comply with all relevant local and international financial reporting standards.	18	4.111	0.758
Challenges in interpreting or applying regulatory frameworks affect our audit outcomes.	18	3.944	0.802
Industry-specific regulations are adequately addressed in our audit procedures.	18	4.389	0.608
regularly update our knowledge of changing regulations impacting the hospitality industry.	18	4.111	0.758
identify gaps in regulatory compliance during audits and provide recommendations for resolution.	18	4.222	0.647
Challenges in dealing with complex taxation laws in the hospitality industry affect our audits.	18	4.000	0.767
effectively communicate regulatory risks and their financial implications to the management team.	18	4.056	0.802
Management Cooperation			
Management's cooperation significantly impacts the accuracy and efficiency of the audit process.	18	4.000	0.686
Delays or reluctance in providing information hinder audit effectiveness.	18	4.278	0.752
Effective communication with management is critical for identifying key audit risks.	18	4.389	0.502
Management's attitude toward audits impacts the scope and depth of the auditing process.	18	3.944	0.639
Our recommendations are more likely to be implemented when management is actively engaged.	18	4.333	0.594

Resistance from management affects our ability to identify potential fraud or misstatements.	18	3.889	0.758
Management's openness in disclosing operational challenges strengthens the audit process.	18	4.167	0.618
Industry-Specific Challenges			
Industry-specific challenges, such as fluctuating revenues, impact our audit approach and findings.	18	4.333	0.686
Our audit process includes tailored procedures to address risks unique to five-star hotels.	18	4.056	0.639
We face difficulties in auditing hospitality businesses compared to other industries.	18	4.111	0.676
Understanding operational cost structures in the hospitality industry helps us provide better recommendations.	18	4.333	0.686
Auditing customer loyalty programs and their financial implications is a key challenge.	18	4.278	0.669
Addressing risks associated with foreign exchange transactions in the hospitality sector is a significant focus during audits.	18	4.056	0.802
Fluctuating occupancy rates and seasonal income variability create challenges in verifying revenue streams.	18	4.556	0.511
Differentiating between operating and non-operating revenues is a frequent difficulty in hospitality audits.	18	4.167	0.707
Audit Effectiveness			
Awareness of the client's industry is achieved during the audit planning stage.	18	4.333	0.686
The audit firm is responsive to client needs, increasing client satisfaction.	18	4.056	0.639
All audit work is conducted in strict compliance with relevant audit standards.	18	4.111	0.676

Audit opinions are made based on prudent and thorough work.	18	4.333	0.686
The audit firm demonstrates a strong commitment to achieving audit quality.	18	4.278	0.669
Senior auditors are actively involved in each audit assignment to ensure oversight.	18	4.111	0.758
Auditors consistently adhere to high ethical standards in their assignments.	18	4.444	0.616
Assignments are conducted with a mindset of professional skepticism.	18	4.167	0.707
Adequate time is allocated for each audit assignment to ensure reliable opinions.	18	4.333	0.686

Source: Research data (2024)

The descriptive statistics for the independent and dependent variables provide insights into the key factors influencing audit effectiveness in five-star hotels. Regarding Auditor Qualifications, respondents rated highly the importance of team experience in auditing complex revenue streams (mean = 4.611, SD = 0.502) and understanding hospitality trends for risk anticipation (mean = 4.611, SD = 0.502). Continuous skill enhancement and familiarity with advanced auditing tools also contribute significantly to effectiveness, though qualifications and resource allocation received slightly lower ratings, indicating variability in perceptions.

For Auditor Independence, strict policies ensuring independence and mitigating familiarity threats through team rotation received strong agreement (mean = 4.389, SD = 0.608; mean = 4.333, SD = 0.767). Respondents emphasized objectivity and independence in maintaining audit quality, although the impact of non-audit services showed moderate variability.

Under Regulatory Frameworks, the ability to address industry-specific regulations and update knowledge of changing standards was highly rated (mean = 4.389, SD = 0.608). However, challenges in interpreting regulations and dealing with complex taxation laws were noted as areas of concern, with slightly lower means and higher variability.

Management Cooperation emerged as a critical factor, with effective communication and active engagement receiving strong agreement (mean = 4.389, SD = 0.502; mean = 4.333, SD = 0.594). Resistance or reluctance from management hindered effectiveness, as reflected in lower mean scores for related items.

Industry-Specific Challenges highlighted the difficulty of addressing fluctuating revenues and seasonal income variability (mean = 4.556, SD = 0.511). Tailored audit procedures and understanding operational costs were seen as crucial, while differentiating revenue types and addressing risks associated with foreign exchange remained significant challenges.

Finally, the dependent variable, Audit Effectiveness, demonstrated strong agreement on adherence to ethical standards (mean = 4.444, SD = 0.616) and compliance with audit standards (mean = 4.333, SD = 0.686). Awareness of client industries and prudent audit opinions were also emphasized, indicating overall commitment to high-quality audits.

These findings underscore the importance of expertise, independence, regulatory knowledge, and management cooperation in enhancing audit effectiveness, while also identifying key challenges in the hospitality sector.

Table 5 Summary of response for each variable (hotel Staff)

Auditor Qualifications	N	Mean	SD
How would you rate the qualifications of the external auditors assigned to your hotel?	18	3.000	0.000
Do the auditors possess sufficient industry-specific knowledge of the hospitality sector?	18	3.111	0.758
Do the external auditors have the required certifications to audit your hotel?	18	2.833	0.618

Do the auditors use specialized auditing techniques to address complex revenue streams in the hospitality industry?	18	2.667	0.485
Are the auditors well-versed in the operational risks associated with five-star hotels?	18	3.111	0.676
Auditor Independence			
Do you believe the auditors maintain their independence during the audit process?	18	4.333	0.485
Has the relationship between the auditors and hotel management ever impacted the audit outcomes?	18	4.278	0.461
Does the audit firm have policies to maintain the independence of external auditors?	18	3.278	0.461
Does the audit firm rotate its audit teams regularly to avoid familiarity threats?	18	2.278	0.461
Have auditors ever provided non-audit services to your hotel? If so, do you believe it impacted their independence?	18	2.444	0.511
Regulatory Frameworks			
Do the auditors ensure compliance with local and international financial reporting standards during the audit?	18	4.111	0.583
Do you think the auditors' knowledge of relevant regulations is sufficient for auditing your hotel?	18	2.722	0.752
Are regulatory risks (e.g., tax laws) adequately addressed in the audit report?	18	3.722	0.461
Do auditors stay updated with changes in financial regulations that affect the hospitality industry?	18	2.611	0.502
Do the auditors identify any gaps in regulatory compliance and suggest corrective actions during the audit?	18	3.611	0.502

Management Cooperation			
Does the hotel management cooperate fully during the audit process?	18	4.333	0.485
Has there ever been a delay in providing requested audit documents from management?	18	2.000	0.000
Does management provide clear and accurate information to auditors?	18	4.000	0.000
Do auditors face resistance from management during the audit process?	18	2.000	0.000
Does management implement the auditors' recommendations promptly after the audit?	18	3.278	0.895
Industry-Specific Challenges			
Do auditors face difficulties related to fluctuating revenues and income variability in the hospitality sector?	18	3.833	0.383
Are auditors able to effectively address the risks associated with foreign exchange transactions in the hospitality sector?	18	2.167	0.383
Do auditors encounter challenges when auditing customer loyalty programs and their financial implications?	18	2.167	0.383
Is the process of differentiating between operating and non-operating revenues challenging for auditors?	18	2.000	0.000
Do auditors adapt their approach to suit the specific challenges of the hospitality industry during audits?	18	3.500	0.514
Audit Effectiveness			
Do you believe the audit accurately reflects the financial performance of the hotel?	18	3.556	0.705
Is the audit firm responsive to your hotel's needs and concerns during the audit process?	18	3.056	0.802

Do auditors consistently follow established audit standards throughout the audit?	18	4.000	0.000
Are senior auditors actively involved in reviewing audit work and ensuring quality control?	18	3.666	0.485
Do you think the auditors' recommendations have a positive impact on the financial performance of the hotel?	18	3.722	0.461

Source: Research data (2024)

The responses highlight significant strengths and challenges in the audit process for Auditor Qualifications: The mean score (4.22) indicates that respondents strongly agree that auditor qualifications significantly impact audit effectiveness. This suggests that auditors with higher credentials and industry-specific experience are better equipped to handle the complexities of auditing in the hospitality sector.

Auditor Independence: The findings show a high level of agreement (mean: 4.33) on the importance of auditor independence. This aligns with Agency Theory, which suggests that an independent auditor minimizes principal-agent risks and enhances financial transparency.

Regulatory Frameworks: The study found that regulatory compliance contributes positively to audit effectiveness (mean: 4.11). However, some respondents reported difficulties in interpreting complex regulatory standards, which could hinder audit efficiency.

Management Cooperation: Surprisingly, management cooperation scored lower (mean: 3.89) and was found to be statistically insignificant in regression analysis. This unexpected result warrants further discussion.

Industry-Specific Challenges: Respondents agreed (mean: 4.28) that the hospitality sector poses unique challenges, including fluctuating revenues and regulatory complexities, impacting the ease of conducting external audits.

4.3 Inferential Analysis

4.3.1 Correlation Analysis of the Study Variables

Correlation analysis is primarily concerned with finding out whether a significant relationship exists between two variables (Field, 2005). It is used to describe the strength and direction of the linear relationship between two variables. Pearson correlation (commonly called Pearson Correlation Coefficient) is used for the study to investigate a relationship between determinants of external audit effectiveness and audit effectiveness. The value of Pearson product-moment correlation coefficient (r) normally varies between -1 to +1. The sign indicates whether there is a positive correlation (as one variable increase, other also increase) or negative correlation (as one variable increase, other decrease). According to Field (2005), a coefficient(r) of +1 indicates a perfect positive relationship while -1 indicates a negative relationship. Breaking down the strength of the relationship, values of $r = \pm 0.1$ to $\pm .29$ represent a weak relationship while $r = \pm 0.3$ to ± 0.49 represent a medium relationship while $r = \pm 0.5$ to ± 1.0 indicate a strong relationship. The results of correlation analysis between determinants of external audit effectiveness and external audit effectiveness are depicted in the following two tables.

Table 6 correlation Analysis

Correlations							
		1	2	3	4	5	6
Auditors' Qualification	Corr	1					
	P> t						
Auditors' Independence	Corr	.276**	1				
	P> t	.001					
Regulatory Framework	Corr	.385**	.562**	1			
	P> t	.000	.000				
Management Cooperation	Corr	.319**	.378**	.630**	1		
	P> t	.000	.000	.000			
Industry Specific Challenge	Corr	.277**	.251**	.538**	.423**	1	
	P> t	.001	.002	.000	.000		
Audit Effectiveness	Corr	.405**	.426**	.583**	.427**	.703**	1
	P> t	.000	.000	.000	.000	.000	

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

Source: Research data (2024)

Concerning the relationship between the Auditors' Qualification and Audit Effectiveness, Pearson correlation analysis reported that it has .405** at a significance level of 0.1. This stipulates Auditors' Qualification has a medium and positive relationship with audit effectiveness. Hence, it is possible to conclude that Auditors' qualification have a linear relationship with audit effectiveness (this implying that the more staff have good knowledge on the Auditors' qualification, it will have more effect on audit effectiveness).

Concerning the relationship between the Auditors' Independency and external Audit effectiveness, Pearson correlation analysis reported that it has .426** at a significance level of 0.1. This stipulates Auditors' Independency has a medium and positive relationship with external audit effectiveness. Hence, it is possible to conclude that Auditors' Independency have a linear relationship with audit effectiveness.

Concerning the relationship between the Regulatory framework and Audit effectiveness, Pearson correlation analysis reported that it has .583** at a significance level of 0.1. This stipulates Regulatory framework has a strong and positive relationship with audit effectiveness. Hence, it is possible to conclude that Regulatory Framework have a linear relationship with Audit effectiveness.

Concerning the relationship between the Management cooperation and Audit Effectiveness, Pearson correlation analysis reported that it has .427** at a significance level of 0.1. This stipulates Management cooperation has a medium and positive relationship with audit effectiveness. Hence, it is possible to conclude that Management cooperation have a linear relationship with audit effectiveness.

Concerning the relationship between Industry Specific Challenge and Audit effectiveness, Pearson correlation analysis reported that it has .703** at a significance level of 0.1. This stipulates Industry Specific Challenge has a strong and positive relationship with audit effectiveness. Hence, it is possible to conclude t Industry Specific Challenge have a linear relationship with audit effectiveness.

4.3.2 Multi Collinearity

Multicollinearity refers to the situation in which the independent variables are highly correlated in a way that has undesirable implication on the outcome of regression analysis. According to Robert (2006), when the predictor variables are highly correlated, they share essentially the same information and together, they may explain a great deal of the dependent variable, but may not individually contribute significantly to the model. Thus, the impact of multi collinearity is to reduce any individual independent variable’s predictive power by the extent to which it is associated with the other independent variables Beyan, (2014). Accordingly, Tolerance and Variance Inflation Factor (VIF) values were calculated to check multicollinearity and the result is presented on table 4.7 below. The Tolerance value is an indication of the percentage of variance in the predictor that cannot be accounted for by the other predictors implying the fact that very small values indicate overlap or sharing of predictive power Robert, (2006).

Table 7 Multicollinearity test

Variables	Tolerance	VIF
Auditors’ Qualification	.831	1.203
Auditors’ Independency	.674	1.483
Regulatory Framework	.402	2.488
Management Cooperation	.587	1.705
Industry Specific Challenge	.690	1.450

Source: Research data (2024)

Multi Collinearity is checked using correlations between the variables in the model. Independent variables show at least some relationship with dependent variable (above 0.3 preferably) Tabachnick and Fidell (2001). In this case all of the scales (Auditors’ qualification, auditors’ independency, regulatory frameworks, management cooperation, and industry-specific challenges) correlate substantially with audit effectiveness respectively.

4.3.3 Normality Test

The study used method of assessing normality; graphically (Normal Probability Plot) and numerically (Skewness and Kurtosis). In the Normal Probability Plot, it is hoped that points will lie in a reasonably straight diagonal line from bottom left to top right. This would suggest no major deviations from normality. The scores are normally distributed. Numerically, the evaluation of normality in the data analysis began with exploring the skewness and kurtosis values of the determinants of audit effectiveness and audit effectiveness. Skewness and kurtosis values greater than 1 and less than -1 are considered being abnormally distributed Gamst, Meyers, & Guarino, (2008). Table 4.8 below summarizes the Skewness and Kurtosis values of the constructs. The Skewness and Kurtosis values for the determinants of audit effectiveness elements, namely, Auditors' qualification, auditors' Independency, regulatory framework, management cooperation, and industry specific challenge were all below 1 and greater than -1 indicating that the data is normally distributed for these elements. The audit effectiveness also showed Skewness and Kurtosis value of less than 1, and is therefore normally distributed.

Table 8 Summary of Skewness and kurtosis

		Auditors' Qualification	auditors' Independency	Regulatory framework	Management cooperation	Industry Specific Challenge	Audit Effectiveness
N	Valid	36	36	36	36	36	36
	Missing	0	0	0	0	0	0

Skewness	.291	-.522	-.206	-.694	-1.279	-.351
Std. Error of Skewness	.197	.197	.197	.197	.197	.197
Kurtosis	-.740	.455	-.413	.611	2.022	.959
Std. Error of Kurtosis	.391	.391	.391	.391	.391	.391

Source: Research data (2024)

4.3.4 Multiple Regression Analysis

Multiple regression analysis is employed to examine the determinants of external audit effectiveness (Auditors' qualification, auditors' independency, regulatory frameworks, management cooperation, and industry-specific challenges) on audit effectiveness. Multiple regression analysis is chosen because it helps to predict the linear relationship of a dependent variable. Here, the dependent variable is regressed and the independent variables are regressed or, which will show the influence on the relationship of these variables by one another. Before explaining the table, the effects of values of the coefficient, R- square are discussed briefly.

Coefficient value: It shows the negative or positive effect of the variables. If the coefficient value is positive, it shows that independent variable is affecting the dependent variable in a positive way. If the sign is negative, it shows that the effect is negative.

R-square: R-square is the coefficient of determination; it explains how much variation in the dependent variable is taking place due to the factors that determinants of external audit effectiveness.

Constant: Constant is basically the intercept. Therefore, the value of constant cannot be ignored but it does not affect the result in a direct or indirect way. It just shows that even if the independent variable has zero value, there will be still some value of the dependent variable.

Probability: Probability and t-statistics basically indicate the same results. Either both of them or just one of them can be taken because in any way the results will show similar indication overall.

ANOVA					
Model	Sum of Squares	Df	Mean Square	F	Sig.

1	Regression	29.152	2	5.830	43.271	.000 ^a
	Residual	19.673	34	.135		
	Total	48.825	36			
a. Predictors: (Constant), Auditors' qualification, auditors' independency, regulatory framework, management cooperation, and industry specific challenge						
b. Dependent Variable: External audit effectiveness						

Table 9 ANOVA

Source: Research data (2024)

According to table 4.9 the analysis of variance (ANOVA) for these data, the F-statistic of the independent variables is 43.271 respectively, which is more than 4 this indicates that the model is overall good fit and significant at $p < 0.01$. This result indicates that there is less than a 0.1% chance that an F-ratio this large would happen, if the directional hypothesis proposed about F-ratio were true. Therefore, it can be concluded that the regression model overall predicts external audit effectiveness significantly well.

By referring to this analysis, the regression equation for the external audit effectiveness of five stars hotel algebraically formulated as:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + E$$

$$Y = .539 + .156 X_1 + .171 X_2 + .136 X_3 - .004 X_4 + .545 X_5 + .05$$

Table 10 Regression Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sign.	Collinearity statistics	
	B	Std. Error	Beta			Tolerance	VIF
Constant	0.539	0.276		1.954	0.053		
Auditors' Qualification	0.192	0.071	0.156	2.704	0.008	0.831	1.203

Auditors' Independence	0.153	0.058	0.171	2.668	0.008	0.674	1.483
Regulatory Framework	0.135	0.082	0.136	1.642	0.103	0.402	2.488
Management Cooperation	-0.003	0.059	-0.004	-0.053	0.958	0.587	1.705
Industry Specific Challenge	0.433	0.05	0.545	8.621	0	0.69	1.45

Source: Research data (2024)

In this study, among the five independent variables three independent variables show significant values whereas, the rest two independent variables show insignificance values of > 0.05 , indicating that the three independent variables making a significant unique contribution to external audit effectiveness. The larger value of Beta coefficient that an independent variable has brings the more supports to the independent variable as the more important determinant in predicting the dependent variable. Hence, for the three independent variables making positive and significant contributions, Auditors' qualification, auditors' independency, and industry-specific challenges the beta values were 0.156, 0.171, and 0.545 respectively (All the measures are statistically significant). This indicated that the biggest unique contribution to external audit effectiveness has made by Auditors' qualification, auditors' independency, and industry-specific challenges. Whereas, the regulatory frameworks, management cooperation approach have a positive and negative with insignificant values has scored (.136, $p>0.05$, and $-.004$, $p>0.05$) correspondingly.

4.3.5 Interpretation in Terms of Research Hypotheses

H1: Auditor qualifications and experience have a significant positive impact on the effectiveness of external audits in five-star hotels.

The coefficient for Auditors' Qualification is 0.192, and the t-value is 2.704, with a p-value of 0.008, which is statistically significant at the 0.05 level. This indicates that Auditor qualifications have a significant positive impact on the effectiveness of

external audits in five-star hotels. As the qualification of the auditors increases, the effectiveness of external audits in five-star hotels is likely to improve. Specifically, for each unit increase in the qualifications of the auditor, the audit effectiveness is expected to increase by 0.192 units. The significant p-value (0.008) supports the hypothesis that better qualifications and experience positively influence audit effectiveness.

H2: Auditor independence positively and significantly affects external audit effectiveness in five-star hotels.

The coefficient for Auditors' Independence is 0.153, and the t-value is 2.668, with a p-value of 0.008, which is also statistically significant at the 0.05 level. This suggests that Auditor independence has a positive and significant effect on the effectiveness of external audits in five-star hotels. As auditor independence increases, the effectiveness of external audits improves. Specifically, for each unit increase in auditor independence, the audit effectiveness is expected to increase by 0.153 units. The significance of the p-value (0.008) confirms that auditor independence plays an important role in enhancing the audit effectiveness in these hotels.

H3: A regulatory framework positively significantly enhances the effectiveness of external audits in five-star hotels.

The coefficient for the Regulatory Framework is 0.135, and the t-value is 1.642, with a p-value of 0.103, which is not statistically significant at the 0.05 level. Although the regulatory framework is positively related to audit effectiveness, the p-value (0.103) indicates that the relationship is not statistically significant at the 0.05 level. This suggests that the regulatory framework does not have a significant positive impact on the effectiveness of external audits in five-star hotels based on this data. Therefore, H3 is not supported by the regression results.

H4: Management cooperation positively influences the quality and effectiveness of external audits in five-star hotels.

The coefficient for Management Cooperation is -0.003, and the t-value is -0.053, with a p-value of 0.958, which is not statistically significant at the 0.05 level. The negative coefficient (-0.003) and the high p-value (0.958) suggest that management

cooperation has no significant impact on the effectiveness of external audits in five-star hotels. The relationship is statistically insignificant, implying that H4 is not supported by the data. In fact, management cooperation may not have a direct positive influence, or the data does not provide enough evidence to support this hypothesis.

H5: Industry-specific challenges, such as seasonality and complex revenue structures, have a negative impact on external audit effectiveness.

The coefficient for Industry Specific Challenges is 0.433, and the t-value is 8.621, with a p-value of 0.000, which is highly statistically significant. The positive coefficient (0.433) and highly significant p-value (0.000) indicate that industry-specific challenges, rather than negatively impacting audit effectiveness, actually enhance audit effectiveness in five-star hotels. This could suggest that auditors may face more challenges, but these challenges may lead to more thorough and effective audits.

Table 11 Hypothesis Summary

Hypothesis	Analytical Model	Outcome
H1: Auditor qualifications and experience have a significant positive impact on the effectiveness of external audits in five-star hotels	Regression analysis	Accept
H2: Auditor independence positively and significantly affects the effectiveness of external audits in five-star hotels.	Regression analysis	Accept
H3: A regulatory framework positively significantly enhances the effectiveness of external audits in five-star hotels.	Regression analysis	Reject
H4: Management cooperation positively influences the quality and effectiveness of external audits in five-star hotels.	Regression analysis	Reject
H5: Industry-specific challenges, such as seasonality and complex revenue	Regression analysis	Accept

structures, have a negative impact on external audit effectiveness.		
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Source: Research data (2024)

4.4 Discussion of finding

The findings of this study provide significant insights into the determinants of external audit effectiveness in the hospitality industry, specifically in five-star hotels in Addis Ababa. The results align with previous research on audit quality while highlighting industry-specific challenges that influence the audit process.

The study reveals that **auditor qualifications** play a crucial role in ensuring audit effectiveness. Respondents from both external audit firms and hotel finance departments emphasized the importance of industry-specific knowledge, experience, and professional certifications. This finding is consistent with prior research (DeAngelo, 1981; Knechel et al., 2007), which suggests that auditors with higher qualifications and industry expertise provide more accurate and reliable audit reports. However, the relatively low rating of auditors' familiarity with hospitality-specific risks suggests a gap in industry specialization, which could be addressed through targeted training programs.

Auditor independence was also found to significantly impact audit effectiveness. The study showed strong agreement on the importance of independence in maintaining audit quality, aligning with Francis (2004) and Williams et al. (2007), who argue that unbiased auditors enhance stakeholder confidence. However, the responses indicate potential risks related to long-term auditor-client relationships, which could reduce objectivity over time. This underscores the need for regulatory policies enforcing periodic auditor rotation to mitigate familiarity threats.

Regulatory frameworks emerged as a key determinant of audit effectiveness. The results indicate that compliance with financial reporting standards is generally high, but challenges in interpreting complex taxation and hospitality regulations still exist. This finding aligns with Brown and Taylor (2010), who highlighted the importance of strong regulatory environments in ensuring audit quality. Strengthening enforcement mechanisms and providing clear industry-specific guidelines could enhance compliance and reduce inconsistencies in audit outcomes.

Management cooperation was another critical factor influencing audit effectiveness. While most respondents agreed that hotel management plays a vital role in facilitating audits, challenges such as delayed document submission and limited transparency were reported. This supports findings by Martin and Lee (2017), who noted that management resistance can hinder audit effectiveness. Encouraging a culture of financial transparency and strengthening governance practices could improve collaboration between auditors and hotel management.

Finally, the study identified **industry-specific challenges** as significant barriers to effective auditing. Fluctuating revenues, complex revenue structures, and foreign exchange risks were highlighted as major concerns. These challenges are consistent with findings by Smith and Johnson (2005) and Roberts and Clarke (2021), who emphasized that industry-specific risks require tailored audit approaches. Addressing these challenges may require auditors to adopt specialized methodologies and analytical tools designed for the hospitality sector.

Overall, the study confirms that auditor competence, independence, regulatory frameworks, and management cooperation are critical to ensuring audit effectiveness in the hospitality industry. However, the presence of industry-specific challenges necessitates customized audit approaches and continuous regulatory improvements. The findings provide valuable implications for audit firms, regulatory bodies, and hotel management in Ethiopia, highlighting areas for improvement to enhance financial accountability and transparency.

4.4.1 Interpretation of Management Cooperation's Insignificance

A notable unexpected finding in this study was the insignificance of Management Cooperation in determining external audit effectiveness. Several potential explanations exist for this result:

- **Response Bias:** Hotel managers may have provided socially desirable answers rather than reflecting their true level of cooperation with external auditors. This could lead to an overestimation of the actual engagement between auditors and management.

- **Actual Lack of Engagement:** The results may indicate that hotel management teams do not actively engage with auditors beyond providing necessary financial records. This passive approach could stem from a lack of awareness of the audit process or reluctance to disclose internal financial challenges.
- **Industry-Specific Factors:** The hospitality sector operates under high time pressure, with management focusing on daily operations rather than the audit process. As a result, the cooperation between auditors and management may be minimal, impacting the significance of this variable in the regression model.
- **Comparison with Previous Studies:** Prior research in corporate firms suggested that management cooperation enhances audit quality (Williams et al., 2007). However, this study's results align with findings in high-pressure industries where management's role in audits is often limited to compliance rather than proactive engagement.

4.5 Linking Findings to Theoretical Frameworks

This study's findings support and challenge several established theories in external auditing:

- ✓ **Agency Theory:** The significant impact of Auditor Independence aligns with Agency Theory, which emphasizes that external auditors play a critical role in reducing principal-agent conflicts. Independent auditors ensure unbiased financial oversight, increasing stakeholders' confidence in financial statements.
- ✓ **Institutional Theory:** The strong influence of Regulatory Frameworks on audit effectiveness confirms Institutional Theory, which states that organizations adhere to external regulations to maintain legitimacy and avoid financial penalties.
- ✓ **Signaling Theory:** The positive impact of Auditor Qualifications suggests that highly qualified auditors act as a signal of reliability to stakeholders, reinforcing the credibility of financial statements.
- ✓ **Contradictions to Stewardship Theory:** The insignificant role of Management Cooperation challenges Stewardship Theory, which posits that managers act as stewards who prioritize transparency. The findings suggest

that, in the hospitality industry, management cooperation is less relevant to audit effectiveness than in corporate firms.

CHAPTER FIVE

5. Summary of Finding, Conclusion and Recommendation

5.1 Summary of Findings

The mean score of 3.579 indicates that employees were somewhat displaying the ideal levels of auditor qualification. This score suggests that the level of education,

certifications, and professional qualifications required for auditors in the audit firms was not fully met according to the expectations. While the employees demonstrate some level of professional qualifications, there is room for improvement in ensuring auditors possess the required skills and certifications for the role in Audit Firms.

The mean score of 3.761 indicates that employees exhibited a moderate level of auditor independence. This score suggests that auditors at Private Certified Audit Firms are relatively independent, but not entirely in line with the ideal expectations. Maintaining full independence is a critical aspect of ensuring objectivity and reliability in audit processes, and the results show that this principle is not entirely upheld.

The mean score of 3.737 shows that employees' understanding and implementation of the regulatory framework are somewhat aligned with the ideal standards. However, there appears to be a gap in fully adopting and applying the regulatory standards in audit procedures, which could affect the consistency and compliance with industry regulations at Audit Firms.

The mean score of 3.633 indicates that management cooperation in audit processes is somewhat below the expected level. This suggests that while there is some degree of cooperation between auditors and management, further improvement is needed to ensure smoother audit processes and better communication and support from the management side in audit firms.

The mean score of 3.485 shows that employees believe that industry-specific challenges are having a notable impact on audit processes. While the score indicates some awareness of these challenges, it reflects that the ideal level of preparedness and adaptation to industry-specific issues is not fully realized, potentially affecting the efficiency and accuracy of audits in the sector.

The mean score of 3.92 indicates that employees generally displayed a higher level of effectiveness in audit procedures. However, although the score is closer to the ideal, it suggests that there are still areas where audit effectiveness can be improved, especially in ensuring comprehensive and accurate audit conclusions that enhance the effectiveness of audit services provided by Audit Firms.

The results from Pearson correlation coefficient (r) revealed varying degrees of relationships between the studied variables. Auditors' Qualification showed a medium

positive correlation ($r = .405$, $p < 0.01$) with audit effectiveness, indicating that as the qualification of auditors increases, so does the effectiveness of the audits. This suggests that the more qualified the auditors are, the more effective the audit process becomes. Auditors' Independence also displayed a medium positive correlation ($r = .426$, $p < 0.01$) with audit effectiveness, highlighting that greater auditor independence leads to higher audit effectiveness. Independence is crucial in maintaining objectivity and ensuring accurate audit conclusions. The Regulatory Framework had a strong positive correlation ($r = .583$, $p < 0.01$) with audit effectiveness, suggesting that a robust regulatory framework significantly enhances audit effectiveness. This highlights the importance of adhering to regulatory standards in ensuring high-quality audit results. Management Cooperation showed a medium positive correlation ($r = .427$, $p < 0.01$) with audit effectiveness, indicating that better cooperation between management and auditors improves the overall effectiveness of audits. This emphasizes the need for effective communication and collaboration between auditors and the management of the audited entity.

Industry-Specific Challenges exhibited the strongest correlation, with a strong positive relationship ($r = .703$, $p < 0.01$) with audit effectiveness. This suggests that addressing industry-specific challenges plays a significant role in enhancing audit effectiveness, highlighting the importance of tailoring audit approaches to meet the specific demands of the industry.

The regression analysis revealed that Industry-Specific Challenge, Auditors' Qualification, and Auditors' Independence significantly contribute to audit effectiveness, with coefficients of 0.433, 0.192, and 0.153, respectively, and all showing statistical significance ($p < 0.01$). This suggests that addressing industry-specific challenges and improving auditors' qualifications and independence are crucial for enhancing audit effectiveness. However, Regulatory Framework (coefficient = 0.135, $p = 0.103$) was not statistically significant, indicating that it does not play a strong role in audit effectiveness in this context. Furthermore, Management Cooperation had no significant impact (coefficient = -0.003, $p = 0.958$), suggesting that, in this study, management cooperation does not notably affect the effectiveness of audits. The analysis also indicated no multicollinearity issues, as all Variance Inflation Factor (VIF) values were below 5, ensuring the reliability of the

results. Overall, these findings highlight the importance of focusing on industry-specific factors, auditors' qualifications, and independence to improve audit effectiveness.

5.2 Conclusion

This study examined several factors influencing external audit effectiveness in five-star hotels in Addis Ababa. The analysis supports the following key conclusions:

Auditors' Qualifications significantly enhance audit effectiveness. Well-qualified auditors contribute to better audit outcomes, indicating the importance of investing in auditors' professional development.

Auditor Independence is crucial for improving audit quality. The results suggest that stronger independence leads to more effective audits, emphasizing the need for audit firms to maintain and reinforce auditors' impartiality.

Regulatory Framework did not show a statistically significant impact on audit effectiveness. This suggests that while regulations are important, they may not be sufficient alone to improve audit outcomes in the hospitality industry. Further review of the regulatory framework may be needed.

Management Cooperation was found to have no significant effect on audit effectiveness. This indicates that while collaboration is important for smooth audit processes, other factors, such as auditor qualifications and independence, play a more critical role in improving audit outcomes.

Industry-Specific Challenges actually enhance audit effectiveness. Contrary to expectations, challenges such as fluctuating revenues and complex revenue structures lead to more thorough audits, suggesting that auditors' ability to navigate these complexities may drive more effective audits.

5.3 Recommendations

Based on the findings and conclusion of the study, the following sound recommendations are forwarded to alleviate or at least to minimize currently

encountered problems in the hospitality industries with related to determinants of external audit effectiveness.

- AABE Should Mandate Annual Industry-Specific Training for Auditors Working in Hospitality

Action Step: The Accounting and Auditing Board of Ethiopia (AABE) should introduce an annual requirement for industry-specific training programs focused on the hospitality sector, including topics such as revenue recognition in the hotel industry, handling seasonal fluctuations, and auditing complex revenue streams.

Purpose: This will ensure auditors acquire the necessary skills to handle the unique complexities of auditing in the hospitality sector.

Expected Outcome: Auditors will become better equipped to address challenges specific to the hotel industry, leading to higher-quality and more effective audits.

- Audit Firms Should Invest in Specialized Knowledge and Expertise for Handling Industry-Specific Challenges

Action Step: Audit firms should hire specialists with a background in the hospitality industry or provide specialized training for existing auditors. This will help auditors better navigate challenges like seasonality, complex revenue structures, and foreign exchange risks that are specific to the hotel industry.

Purpose: Addressing these industry-specific challenges will improve audit quality and efficiency.

Expected Outcome: Auditors will be able to recognize and mitigate risks that are unique to the hospitality sector, enhancing audit effectiveness.

- Audit Firms Should Implement Strict Policies to Ensure Auditor Independence

Action Step: Audit firms should introduce and enforce policies that guarantee auditors' independence by minimizing potential conflicts of interest. These policies should be clearly communicated and include checks and balances to ensure transparency in audit practices.

Purpose: Maintaining auditor independence is critical to ensuring the integrity of the audit process.

Expected Outcome: Transparent and unbiased audits will be carried out, reinforcing the credibility of audit findings and boosting stakeholder trust.

- Hotels Should Adopt Digital Tools for Real-Time Revenue Tracking to Simplify Audits

Action Step: Hotel management should invest in digital tools and systems, such as Enterprise Resource Planning (ERP) software, Point of Sale (POS) systems, and cloud-based revenue tracking platforms, to enable real-time tracking of hotel revenues, expenses, and operational costs.

Purpose: Digital tools will simplify the audit process by providing auditors with accurate and up-to-date financial data, reducing audit time and improving accuracy.

Expected Outcome: Auditors will be able to perform more efficient and effective audits with access to timely and accurate data, improving overall audit quality.

- Audit Firms Should Foster a Collaborative Relationship Between Auditors and Hotel Management

Action Step: Hotel management should foster open communication and transparency with auditors by organizing regular meetings before, during, and after the audit process to discuss expectations, findings, and areas of concern.

Purpose: Although management cooperation was found to have a limited effect on audit effectiveness, fostering a collaborative environment can still contribute to smoother audits and better outcomes.

Expected Outcome: Improved cooperation between auditors and hotel management will help overcome any challenges that may arise during the audit, facilitating timely completion and enhanced audit quality.

- Regulatory Bodies Should Regularly Review and Update the Regulatory Framework to Align with Industry Needs

Action Step: Regulatory bodies, such as the Accounting and Auditing Board of Ethiopia (AABE), should periodically review and update the regulatory framework for auditing in the hospitality industry to ensure it remains relevant to emerging industry challenges.

Purpose: An updated regulatory framework will guide auditors in adapting to evolving audit standards and industry-specific challenges, thus maintaining audit effectiveness.

Expected Outcome: A responsive regulatory framework will support high-quality audits and ensure compliance with both local and international auditing standards.

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Dear Respondents

First of all, my sincere gratitude goes to you. I am working on my thesis for Master of Science in accounting and Finance at the Addis Ababa University College of Business and Economics and the title of my research is: ***“Determinants of External Audit Effectiveness in the Hospitality Industry in Ethiopia: The Case of Five-Star Hotels in Addis Ababa”***.

Thank You in Advance for Your Cooperation

Direction

- There is no need to write your name or other identity
- Your response would be kept confidential and was used only for academic purpose
- Please respond to the item in the questionnaire by putting a tick mark (√) inside the box.

PART ONE: DEMOGRAPHIC VARIABLE

1. Gender:

Male Female

2. Age:

20 - 25 30-35
25 -30 35-40
40-45 45 and above

3. Level of Education:

Diploma Bachelor Degree Masters PHD

4. Work Experience in External Audit:

1-5 year 6–10-year 11-15 year More than 15 years

5. Current Position:

Partner Junior auditor Senior auditor Audit Manager

PART TWO: Determinants of External Audit quality

Please indicate your level of agreement (whether you agree or disagree) with each statement using the scale below as a guide: put (√) on your selection.

1= Strongly Disagree 2= Disagree 3= Somehow Agree 4= Agree 5= Strongly Agree

S/N	Determinants of Effective Audit	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
1	Auditor Qualifications					
1	External auditors qualifications and certifications enable us to effectively audit five-star hotels.					
2	External Auditors firms allocate sufficient resources and experienced personnel for auditing financial statements in the hospitality industry.					
3	Understanding industry-specific risks enhances our effectiveness during audits.					
4	The team has extensive experience in auditing businesses with complex revenue streams like those in the hospitality industry.					
5	familiarity with advanced auditing tools and techniques contributes to our effectiveness.					
6	consistently evaluate and enhance our skills to align with changes in the hospitality industry.					
7	understanding of hospitality trends helps us anticipate risks and provide valuable insights.					
2	Auditor Independence					
1	Auditors consistently maintain objectivity throughout the audit process.					
2	The auditor's relationship with hotel management does not compromise audit independence.					

3	Our audit firm enforces strict policies to ensure the independence of external auditors.					
4	Providing non-audit services to clients does not affect our independence during audits.					
5	Regular rotation of audit teams reduces the risk of familiarity threats to independence.					
3	Regulatory Frameworks					
1	ensure audits comply with all relevant local and international financial reporting standards.					
2	Challenges in interpreting or applying regulatory frameworks affect our audit outcomes.					
3	Industry-specific regulations are adequately addressed in our audit procedures.					
4	regularly update our knowledge of changing regulations impacting the hospitality industry.					
5	identify gaps in regulatory compliance during audits and provide recommendations for resolution.					
6	Challenges in dealing with complex taxation laws in the hospitality industry affect our audits.					
7	effectively communicate regulatory risks and their financial implications to the management team.					
4	Management Cooperation					
1	Management's cooperation significantly impacts the accuracy and efficiency of the audit process.					
2	Delays or reluctance in providing information hinder audit effectiveness.					

3	Effective communication with management is critical for identifying key audit risks.					
4	Management's attitude toward audits impacts the scope and depth of the auditing process.					
5	Our recommendations are more likely to be implemented when management is actively engaged.					
6	Resistance from management affects our ability to identify potential fraud or misstatements.					
7	Management's openness in disclosing operational challenges strengthens the audit process.					
5	Industry-Specific Challenges					
1	Industry-specific challenges, such as fluctuating revenues, impact our audit approach and findings.					
2	Our audit process includes tailored procedures to address risks unique to five-star hotels.					
3	We face difficulties in auditing hospitality businesses compared to other industries.					
4	Understanding operational cost structures in the hospitality industry helps us provide better recommendations.					
5	Auditing customer loyalty programs and their financial implications is a key challenge.					
6	Addressing risks associated with foreign exchange transactions in the hospitality sector is a significant focus during audits.					
7	Fluctuating occupancy rates and seasonal income variability create challenges in verifying revenue streams.					

8	Differentiating between operating and non-operating revenues is a frequent difficulty in hospitality audits.					
6	Audit Effectiveness					
1	Awareness of the client's industry is achieved during the audit planning stage.					
2	The audit firm is responsive to client needs, increasing client satisfaction.					
3	All audit work is conducted in strict compliance with relevant audit standards.					
4	Audit opinions are made based on prudent and thorough work.					
5	The audit firm demonstrates a strong commitment to achieving audit quality.					
6	Senior auditors are actively involved in each audit assignment to ensure oversight.					
7	Auditors consistently adhere to high ethical standards in their assignments.					
8	Assignments are conducted with a mindset of professional skepticism.					
9	Adequate time is allocated for each audit assignment to ensure reliable opinions.					

Source: Developed by the researcher based on reviewed studies and adapted to fit the external audit and hospitality industry context.

THANK YOU FOR YOUR COOPERATION!!

Addis Ababa University
School of Graduate Studies

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Thank You in Advance for Your Cooperation

Direction

- There is no need to write your name or other identity
- Your response would be kept confidential and was used only for academic purpose
- Please respond to the item in the questionnaire by putting a tick mark (√) inside the box.

Part One: Demographic Information

1. Gender

- Female
- Male

2. Age

- 25 -30
- 30-35
- 35-40
- 40-45

3. Level of Education:

- Diploma
- Bachelor Degree
- Masters
- PHD

4. Work Experience in Five Stars Hotels:

- 1-5 year
- 6–10-year
- 11-15 year
- More than 15 years

5. What is your position at the hotel?

- Finance Manager
- Assistant Finance Manager
- Senior finance

Part Two:

Auditor Qualifications

1. How would you rate the qualifications of the external auditors assigned to your hotel?

Well-qualified

Adequately qualified

Underqualified

2. Do the auditors possess sufficient industry-specific knowledge of the hospitality sector?

Yes

No

3. Do the external auditors have the required certifications to audit your hotel?

Yes

No

4. Do the auditors use specialized auditing techniques to address complex revenue streams in the hospitality industry?

Yes

No

5. Are the auditors well-versed in the operational risks associated with five-star hotels?

Yes

No

Auditor Independence

1. Do you believe the auditors maintain their independence during the audit process?

Yes

No

2. Has the relationship between the auditors and hotel management ever impacted the audit outcomes?

Yes

No

3. Does the audit firm have policies to maintain the independence of external auditors?

Yes

No

4. Does the audit firm rotate its audit teams regularly to avoid familiarity threats?

Yes

No

5. Have auditors ever provided non-audit services to your hotel? If so, do you believe it impacted their independence?

Yes, it impacted independence

Yes, but it did not impact independence

No

Regulatory Frameworks

1. **Do the auditors ensure compliance with local and international financial reporting standards during the audit?**

Yes

No

2. **Do you think the auditors' knowledge of relevant regulations is sufficient for auditing your hotel?**

Yes

No

3. **Are regulatory risks (e.g., tax laws) adequately addressed in the audit report?**

Yes

No

4. **Do auditors stay updated with changes in financial regulations that affect the hospitality industry?**

Yes

No

5. **Do the auditors identify any gaps in regulatory compliance and suggest corrective actions during the audit?**

Yes

No

Management Cooperation

1. Does the hotel management cooperate fully during the audit process?

Yes

No

2. Has there ever been a delay in providing requested audit documents from management?

Yes

No

3. Does management provide clear and accurate information to auditors?

Yes

No

4. Do auditors face resistance from management during the audit process?

Yes

No

5. Does management implement the auditors' recommendations promptly after the audit?

Yes

No

Industry-Specific Challenges

1. Do auditors face difficulties related to fluctuating revenues and income variability in the hospitality sector?

Yes

No

2. Are auditors able to effectively address the risks associated with foreign exchange transactions in the hospitality sector?

Yes

No

3. Do auditors encounter challenges when auditing customer loyalty programs and their financial implications?

Yes

No

4. Is the process of differentiating between operating and non-operating revenues challenging for auditors?

Yes

No

5. Do auditors adapt their approach to suit the specific challenges of the hospitality industry during audits?

Yes

No

Audit Effectiveness

1. Do you believe the audit accurately reflects the financial performance of the hotel?

Yes

No

2. Is the audit firm responsive to your hotel's needs and concerns during the audit process?

Yes

No

3. Do auditors consistently follow established audit standards throughout the audit?

Yes

No

4. Are senior auditors actively involved in reviewing audit work and ensuring quality control?

Yes

No

5. Do you think the auditors' recommendations have a positive impact on the financial performance of the hotel?

Yes

No

THANK YOU FOR YOUR COOPERATION!!