



ADDIS ABABA UNIVERSITY

COLLEGE OF BUSINESS & ECONOMICS

DEPARTMENT OF ACCOUNTING AND FINANCE

**FACTORS AFFECTING EXTERNAL AUDITOR'S INDEPENDENCE IN ETHIOPIA:
IN CASE OF PRIVATE AUDIT FIRMS IN ADDIS ABABA**

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AUDITING

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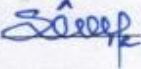
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ADDIS ABABA, ETHIOPIA

Declaration

I hereby declare that the title " *Factors Affecting External Auditor's Independence in Ethiopia: In the Case of Private Audit Firms in Addis Ababa* " is submitted to partially fulfill the requirements for the award of a master's degree in accounting and Auditing. The research is a result of my effort and has not been submitted for any Degree program in this or other institutions. All sources of materials used for this project are properly cited according to academic guidelines and the thesis is done independently with the guidance and recommendation of my advisor.

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Statement of Certification

This is to declare that the project titled "Factors Affecting External Auditor's Independence in Ethiopia: In the Case of Private Audit Firms in Addis Ababa" prepared by Selamawit Dereje, fulfills the requirements for the Master's Degree in Accounting and Auditing. It also complies with the University regulations and meets the accepted standards for originality and quality.

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Acronyms and Abbreviations

AABE	Accounting and Auditing Board of Ethiopia
AFT	Audit Firm Tenure
AI	Auditors' Independence
IAASB	International Auditing and Assurance Standards Board
IFAC	International Federation of Accountants
IIA	Institute of Internal Auditors
INTOSAI	International Organization of Supreme Audit Institutions
ISB	Independence Standards Board
NAS	non-audit service
PAI	Perceived audit independence
PASAI	Pacific Association of Supreme Audit Institutions
SAI	Supreme audit institution
TEC	Technology

Abstract

This study was examined factors affecting External auditors' independence in Ethiopia with reference to external private audit firms in Addis Ababa. The researcher employed mixed research approach with explanatory research design where the effect caused by the independent variable on the dependent variable is observed through descriptive, inferential and regression analysis. Primary data was collected through structured questionnaire from 99 auditors of private audit firms. Accordingly, the result of descriptive, inferential and regression analysis showed that size of audit firm, audit tenure, provision of non-audit service, audit firm age, management support and information technology have positive and statistically significant effect on external auditors' independence. Based on the findings of the study, the researcher recommended audit firms to rotate their auditors periodically, provide assessment and training programs, audit managers to assess auditors' independence during audit engagement period, audit firms to cope-up with existed and upcoming standards and technologies and the concerned government body to make restriction on provision of non-audit service in order to improve auditors' independence.

Key words: *auditor's independence, size of audit firm, audit tenure, provision of non-audit service, audit firm age, management support and information technology*

CHAPTER ONE

1. INTRODUCTION

1.1 Background of the Study

Auditing is ensuring the accuracy and integrity of information and business process. The external auditor is independent Auditor and play key role in evaluation of evidences, and is essential to the provision of an objective opinion on the truth and fairness of financial statements. The external auditor is independent Auditor and play key role in evaluation of evidences, and is essential to the provision of an objective opinion on the truth and fairness of financial statements (Ahmad et.al 2017).

Independence is defined as “free from outside control; not subject to another's authority and is not depending on another for livelihood or subsistence”. An auditor must maintain independence from the audit client to uphold the objectivity and integrity of the audit process. Auditor independence is the cornerstone of the auditing profession and it is the foundation of the public's trust in the accounting and auditing profession. (PASAI, 2021).

Independence in auditing means an impartial perspective in the implementation of tests, evaluation of examination results, and preparation of audit reports. An auditor must have the ability to understand the criteria used and be able to determine the amount of evidence needed to support the conclusions to be drawn. The auditor must have an independent mental attitude. Even if he is an expert, if he does not have an independent attitude in gathering information it will be useless, because the information used to make decisions must be unbiased. Wahyuningsih (2010)

Independence Standards Board (ISB, 2000) defined major independence as the: freedom from those pressures and other factors that compromise, or can reasonably be expected to compromise an auditor’s ability to realize unbiased audit decisions. There are two important aspects to independence which must be distinguished from each other: independence in fact (real independence) and independence in appearance (perceived independence). Together, both forms are essential to achieve the goals of independence. Real independence refers to independence of the auditor, also known as independence of mind. More specifically, real independence concerns the state of mind an auditor is in, and how the auditor acts in/deals with a specific situation. An

auditor who is independent 'in fact' has the ability to make independent decisions even if there is a perceived lack of independence present, or if the auditor is placed in a compromising position by company directors. Many difficulties lie in determining whether an auditor is truly independent, since it is impossible to observe and measure a person's mental attitude and personal integrity. Similarly, an auditor's objectivity must be beyond question, but how can this be guaranteed and measured, but appears independent too? If an auditor is in fact independent, but one or more factors suggest otherwise, this could potentially lead to the public concluding that the audit report does not represent a true and fair view. Independence in appearances also reduces the opportunity for an auditor to act otherwise than independently, which subsequently adds credibility to the audit report.

1.2 Statement of the problem

The independence of the external auditor is one of the most important issues the audit has received considerable attention since the very beginning of the composition of the audit profession, because the external auditor is seen as a pivotal player in advising the management of corporate and organizations to perform their roles in a correctly manner; to be able to carry out their functions in a responsible and professional manner, the importance of independence of the external auditor cannot be overemphasized. In light of this, it was important to understand the factors that have the ability to influence the audit exercise by hampering the independence of the external auditor. Independence of the external auditor has got with great interest by researchers in the field of auditing, and the reason for this is that independence auditors as the primary basis for the quality of the audit process and then the confidence of investors in the financial and non-financial information and their decisions are highly affected which also affects the economy as a whole, and in this area of the studies revealed the relationship between independence of the external auditor, and reflects on the quality of the audit process. Hasen, (2017)

Audit firm tenure affects audit firm independence, it was established that forcing a change of auditors lowers the quality of audits and increase their costs. The longer an auditor is with a company the more it learns about its personnel, its business and its intrinsic values. The study recommends that external auditors must maintain quality in accordance with the generally accepted auditing standard when accumulating and evaluating the auditing evidence as it is important in having better result of an audit process. Titus et al (2014)

Previous study by Sinaga & Sinaga (2016). Shows that audit firm age has no significant effect on audit quality while audit tenure showed that there is a significant effect on audit quality. In addition to the findings mentioned, it simultaneously showed that audit firm age and audit tenure on audit quality. In addition, audit firm age and audit tenure should go hand in hand together in achieving audit quality. Audit firm age, although not significant, must be taken into consideration. The longer the firm, it is expected to increase audit quality.

A professional accountant should be fair and should not allow prejudice or bias, conflict of interest or influence of others to override objectivity. A professional accountant should maintain objectivity and be free of conflicts of interest in discharging professional responsibilities. Objectivity is a state of mind, a quality that lends value to a professional accountant's services. It is a distinguishing feature of the profession. The principle of objectivity imposes the obligation to be impartial, intellectually honest, and free of conflicts of interest (Tepalagul & Lin, 2015).

Previous studies conducted in Ethiopia by Albeksh, (2017) and Shumie, (2016), shows that the auditing standards and professional behavior are the most impact factor on the independence of the auditor and that the integrity, honesty and truthfulness of the qualities that must be provided by the independent auditor. Albeksh, (2017). And level of competition in the audit services market, tenure of an audit firm serving the needs of a given client and size of audit fees received by audit firm in relation to total percentage of audit revenue do have negative and significant effect on auditors independence and the provision of non-audit service has positive significant effect on auditors' independence. Client related factors and industry situation do have significant effect on auditor's independence. Shumie, (2016).

Recent studies by Addisu et al (2021) showed that size of audit firm, size of audit fee, professional audit standard, competition, existence of audit committee and information technology have positive and statistically significant effect on auditors' independence. Whereas, provision was not statistically significant. And Deyganto (2022) on his study showed that ethical awareness of auditors, training, and learning, audits firm size, the competition level of audit service, the existence of an audit committee, audit tenure, the performance of non-audit service, and professional audit standards were statistically significant. However, the size of audit fees and information technology utilization were not statistically significant.

This Study aims to explore the factors that affects external auditor's independence in private audit firms through identifying factors such as size of audit firm, Audit Tenure, Provision of non-audit services, Audit firm age, Management support and Audit firm's technology.

1.2.1 Research questions:

The study formulated the following questions in order to explore the factors affecting external auditor's independence:-

1. How size of audit firm affects the auditors' independence in private audit firms?
2. What is the effect of the Tenure of an external audit firm on the auditors' independence in private audit firms?
3. What effect Provision of non-audit services to clients has on auditors' independence in private audit firms?
4. How Audit firm age has an effect on external auditors' independence in private audit firms?
5. How use of technology by audit firms affects external auditors' independence in private audit firms?
6. What effect Audit firm's Management support has on auditors' independence in private audit firms?

1.3. Objectives of the study

1.3.1. General objectives

The aim of this study was to explore the Factors Affecting External Auditor Independence in Ethiopia, in case of Private Audit Firms in Addis Ababa.

1.3.2. Specific objectives

1. To examine the effect of size of audit firm on the auditors' independence in private audit firms.
2. To determine the effects of the tenure of an audit firm affects the independence of an auditor private audit firms.
3. To examine the effects of the provision of non-audit services to clients have on auditors' independence in private audit firms.
4. To examine the effect of Audit firm age on external auditors' independence in private audit firms.

5. To determine the effect of Audit firm's technology on external auditor's independence.
6. To determine the effects of Management support on external auditor's Independence.

1.4. Significance of the study

The study helps to identify the effects of size of audit firm, Audit Tenure, Provision of non-audit services, audit firm age, management support and information technology on the Independence of External Auditor's and to safeguard the independence of auditors through regulatory frameworks. Also, the study contributes to the understanding of Factors that affect External Auditor Independence so that private audit firms can assess themselves through this study and try to enhance their independency as a result they can provide high audit quality for their clients with a better decision-making ability. The concerned body can use this study as a source of finding the current audit firms' level of independency and to take the right move on their status. Finally, future studies can also use this study as additional literature in the study area.

1.5. Scope of the study

This study was delimited to explore Factors that affect External Auditor Independence through identifying six significant factors Size of audit firm, Audit Tenure, Provision of non-audit services and Audit firm age Management support and Audit firm's technology the study do not cover other factors which may affect the Independence of External Auditor. Also, the study was delimited to external private audit firms in Addis Ababa, Ethiopia.

1.6. Limitation of the study

Accordingly, there are some limitations in current study. In the beginning, it focused only on exploring the factors affecting auditor's independence in Addis Ababa, Ethiopia and the study didn't address all the factors affecting external auditor's independence. The findings of this study may be difficult to generalize about all cities or regions in Ethiopia since it was conducted only private audit firms in Addis Ababa.

1.7. Organization of the study

This paper was organized in to five sections. The first part was general introduction. The second section reviews different literature that relates to the topics of the study. In the third section the research design and methodology were addressed. The fourth section covered the results and discussions and finally, the fifth section concluded the paper and shows some recommendations.

CHAPTER TWO

LITERATURE REVIEW

2. INTRODUCTION

This chapter was all about theoretical framework of the study and elaborates different theoretical explanations and overviews related to the auditor's independence and factors affecting external auditor's independence. In order to link different theories with this study, the researcher used different theoretical issues from different authors.

2.1 Theoretical Literature Review

2.1.1 Auditing

Auditing originates from the Latin term "Audire", which means "to hear," - just as in ancient times auditors used to listen to officers and people of authority to confirm the validity of their words. Over the years, the role of auditing evolved to verifying written reports: specifically, the financial records of individuals and businesses.

By definition, auditing is an official inspection and verification of the credibility of financial reports. Audits can be conducted by either a business's management as an internal control process or by the government, in case they notice suspicious financial activity. Audit is the examination or inspection of various books of accounts by an auditor followed by physical checking of inventory to make sure that all departments are following documented system of recording transactions. It is done to ascertain the accuracy of financial statements provided by the organization.

Audit can be done internally by employees or heads of a particular department and externally by an outside firm or an independent auditor. The idea is to check and verify the accounts by an independent authority to ensure that all books of accounts are done in a fair manner and there is no misrepresentation or fraud that is being conducted.

2.1.2 Auditors' independence

According to Nasution (2018), independence is a mental attitude that is free of influence, is not influenced by others, and does not rely on others. Independence also implies an auditor's honesty in analyzing facts and objective and impartial considerations in forming and expressing his

opinion. As a public accountant or auditor, you have an obligation to be honest in all matters. Honesty for the auditor is a basic trait that must be possessed in order to achieve good audit quality.

Independence is a person's ability to act with integrity and objectivity. Although these two things cannot be measured with certainty, integrity and objectivity are fundamental to the public accounting profession. Integrity is the principle of being honest, impartial, and stating facts as they are. Meanwhile, objectivity is an impartial attitude in considering facts, personal interests are not contained in the facts encountered (Harjanto & Zulaikha, 2014).

According to Lisbeth & Ramadhan (2022), independent attitude of the auditor becomes auditor's work, namely audit opinion on financial reports and the level of trust in the general public. The auditor must have an independent nature for each task and obligation even though he has an interest in the company being audited. As such, the auditor must create perceptions for the public or other parties who have an interest that the auditor is truly independent in carrying out his duties to audit the financial statements of certain entities (Sari & Suryono, 2016).

Independence is defined as “free from outside control; not subject to another's authority and is not depending on another for livelihood or subsistence”. An auditor must maintain independence from the audit client to uphold the objectivity and integrity of the audit process. Auditor independence is the cornerstone of the auditing profession and it is the foundation of the public's trust in the accounting and auditing profession. (PASAI, 2021).

2.1.3 Categories of auditor independence

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

Independence in mind

According to IFAC (2004), independence in mind is the state of mind that permits the provision of an opinion without being affected by influences that compromise professional judgment, allowing an individual to act with integrity, and exercise objectivity and professional skepticism. Independence in mind (or actual independence) is the auditor's state of mind, his or her ability to make objective and unbiased audit decisions and it is basically refers to the mental attitude of the auditor in terms of professional objectivity (Gul and Tsui, 1992, Dykxhoorn and Sinning, 1982 cited in Nur et al., 2005). As per Philmore et al. (2006), Independence in mind or fact refers to the

actual objective state of the relationship between auditing firms and their clients. Similarly, Appah (2011) noted that, Independence in mind requires the auditor to be free from bias, personal interest, prior commitment to an interest or susceptible to undue influence. This means that an average auditor possessing the requisite state of mind will act in the correct way that will not affect the professional duty of due care and skill.

Independence in Appearance

According to Nur et al. (2005), independence in appearance (or perceived independence) refers to the public's or others' perceptions of the auditor's independence. This notion of independence (i.e. perceived audit independence - PAI) is one of the cornerstones of auditing theory and the sine qua non or essential conditions or prerequisite of auditing practice. Since independence in appearance relies on the perceptions of users of financial statements, thus, it is an empirical concept (Busse von Colbe and Lutter, 1977; Dykxhoorn and Sinning, 1981 cited in Nur et al. , 2005). Philmore et al. (2006) also stated that, Independence in appearance refers to the subjective state of that relationship as perceived by clients and third parties. Similarly, Eilifsen (2009) mentioned that Independence in appearance relates to a third party's perception regarding the auditor's independence. If the third party doesn't think that the auditor appears to be independent, even though the auditor is independent in his mind, the third party don't trust the auditor due to certain circumstances or relationships which are incompatible with independence and the promise of the assurance that the auditor is supposed to provide is lost. Church and Zhang (2002) cited in Appah (2011) conclude that Independence in fact enhances the reliability of financial statements whereas appearance promotes public confidence as to enable users rely on financial statements.

2.1.4 Types of Auditor's Independence

Based on types of auditors exist in auditing environment; it can be classified as internal auditor and external auditor independency. These are:

Independence of the internal auditor means independence from parties whose interests might be harmed by the results of an audit. Specific internal management issues are inadequate risk management, inadequate internal controls, and poor governance. The Charter of Audit and the reporting to an Audit Committee generally provides independence from management, the code of ethics of the company (and of the Internal Audit profession) helps give guidance on independence from suppliers, clients, third parties, etc.

Independence of the external auditor means independence from parties that have an interest in the results published in financial statements of an entity. The support from and relation to the Audit Committee of the client company, the contract and the contractual reference to public accounting standards/codes generally provides independence from management, the code of ethics of the Public Accountant profession) helps give guidance on independence from suppliers, clients, third parties (Chepkorir, 2013). This study was focused on determinants of external auditors' independence.

2.1.5 Threats on the Auditors' Independence:

According to International Federation of Accountants (IFAC) (2017) (*section 100 paragraph 100.12*) threats may be created by a broad range of relationships and circumstances. When a relationship or circumstance creates a threat, such a threat could compromise, or could be perceived to compromise, a professional accountant's compliance with the fundamental principles. A circumstance or relationship may create more than one threat, and a threat may affect compliance with more than one fundamental principle. Threats fall into one or more of the following categories:

Self-interest threat— the threat that a financial or other interest will inappropriately influences the professional accountant's judgment or behavior; Examples of circumstances that create self-interest threats for a professional accountant in public practice include: A member of the assurance team having a direct financial interest in the assurance client. A firm having undue dependence on total fees from a client. A member of the assurance team having a significant close business relationship with an assurance client. A firm being concerned about the possibility of losing a significant client. A member of the audit team entering into employment negotiations with the audit client. A firm entering into a contingent fee arrangement relating to an assurance engagement. A professional accountant discovering a significant error when evaluating the results of a previous professional service performed by a member of the professional accountant's firm.

Self-review threat — the threat that a professional accountant will not appropriately evaluate the results of a previous judgment made or service performed by the professional accountant, or by another individual within the professional accountant's firm or employing organization, on which the accountant will rely when forming a judgment as part of providing a current service. Examples of circumstances that create self-review threats for a professional accountant in public practice

include: A firm issuing an assurance report on the effectiveness of the operation of financial systems after designing or implementing the systems. A firm having prepared the original data used to generate records that are the subject matter of the assurance engagement. A member of the assurance team being, or having recently been, a director or officer of the client. A member of the assurance team being, or having recently been, employed by the client in a position to exert significant influence over the subject matter of the engagement. The firm performing a service for an assurance client that directly affects the subject matter information of the assurance engagement.

Advocacy threat — the threat that a professional accountant will promote a client’s or employer’s position to the point that the professional accountant’s objectivity is compromised; Examples of circumstances that create advocacy threats for a professional accountant in public practice include: The firm promoting shares in an audit client. A professional accountant acting as an advocate on behalf of an audit client in litigation or disputes with third parties.

Familiarity threat — the threat that due to a long or close relationship with a client or employer, a professional accountant will be too sympathetic to their interests or too accepting of their work; Examples of circumstances that create familiarity threats for a professional accountant in public practice include: A member of the engagement team having a close or immediate family member who is a director or officer of the client. A member of the engagement team having a close or immediate family member who is an employee of the client who is in a position to exert significant influence over the subject matter of the engagement. A director or officer of the client or an employee in a position to exert significant influence over the subject matter of the engagement having recently served as the engagement partner. A professional accountant accepting gifts or preferential treatment from a client, unless the value is trivial or inconsequential. Senior personnel having a long association with the assurance client.

Intimidation threat — the threat that a professional accountant will be deterred from acting objectively because of actual or perceived pressures, including attempts to exercise undue influence over the professional accountant. Examples of circumstances that create intimidation threats for a professional accountant in public practice include: A firm being threatened with dismissal from a client engagement. An audit client indicating that it will not award a planned non-assurance contract to the firm if the firm continues to disagree with the client’s accounting

treatment for a particular transaction. A firm being threatened with litigation by the client. A firm being pressured to reduce inappropriately the extent of work performed in order to reduce fees. A professional accountant feeling pressured to agree with the judgment of a client employee because the employee has more expertise on the matter in question. A professional accountant being informed by a partner of the firm that a planned promotion will not occur unless the accountant agrees with an audit client's inappropriate accounting treatment.

2.1.6. Factors affecting Auditors' independence

Size of audit Firm

What distinguishes the big audit firms are owned mostly belonging to the group auditors partners either small offices of it is owned by the references and one large office less susceptible to loss of independence of small offices because of large offices to be less dependent on a particular client from small offices because the audit fees from customer particular constitute a small percentage of the total office revenues and therefore the big offices are willing to sacrifice a customer that threatens the independence of the office, and biggest the audit firms are often considered to be more able to resist pressures from the management (Higher auditor, s independence). Actually, it some characteristics inherent in small audit practices may increase the danger of impairment of independence, such as: the tendency toward a more personalized mode of service and close relationship with the client. Albeksh, (2017)

H1: Size of audit firm has positive and significant effect on auditors' independence.

Audit firm tenure with the client

Independence will be lost if the auditor is involved in a personal relationship with the client, as this may influence their mental attitude and opinion. One of such threats is lengthy tenure.

In this aspect, There are two opinions about the impact of the duration of the relationship between the client and the auditor independent, the first opinion, look at the length of the relationship with the client leads to the quality of the audit process that requires the auditor thorough knowledge and deep nature of the client and the variables affecting the activity and the length of time to achieve that. And this is reflected in the efficiency of the audit process and shorten the time of the audit and the lack of costs because, the client considered the old auditor more valuable for him and it will be the audit office of less dependence on the client and better able to resist the pressure and

auditor has been working for years has one client that supports independence so feel stability and independence. The second opinion sees that the length of the link with the customer leads to a negative impact on the auditor's independence as the length of the period leading to the consolidation of the personal relationship with the client which makes auditor condone some of the things that affect the quality of the audit and the threat of auditor independence and integrity.

About this, IFAC (2005) Clarified that familiarity is one of the large threats to auditor independence. The main concern of IFAC is that immoderate familiarity may result in auditors "complacency or hesitation" stabbed in an appropriate manner, and thus reduces the level of skepticism necessary for an effective audit.

H2: Audit tenure has positive and significant effect on auditors' independence.

Provision of non-audit services

Factors Affecting External Auditors' Independence provision of non-audit services As public concerns about the provision of non-audit services impairing external auditor independence increased, recent studies have examined the association between non audit fees and auditor independence. However, no study has examined the effects of the provisions of non-audit services, on the success or auditor's perceptions of independence.

Audit offices provides services to its clients in addition to audit services, and these services management consulting and bookkeeping, that provide auditors for consulting services to clients creates common interests between the auditor and the client, and this raises doubts about the independence, and there are some audit firms doing business accounting for its customers and this may be the exciting to doubt the independence of the auditor, where it is unreasonable that the auditor audited the lists which prepared it, thus reducing external auditor independence and its impact on the quality of financial reporting. Albeksh, (2017)

H3: Provision of non-audit service to the client positive and significant effect on auditors' independence.

Audit's Firm Age

Audit firm ages along with the founder although sometimes the founder leave the firm, the firm still exist especially if it has its strong foundation. Audit firm's age is considered as one of the

factors that determines its success. The longer the age of a firm in audit, the better performance in rendering assurance services. One of the characteristics of firms is their age. The age of the business refers to the experience of the marketplace, maturity of the business in its life cycle and the experience of the owner in managing the business through trying economic circumstances (Ligthelm, 2012).

H4: Audit's firm age has positive and significant effect on auditors' independence.

Information technology

Recent changes in the audit environment the business environment is always changing and accounting and auditing practices have to keep pace. Standard-setting bodies and market regulators must therefore monitor and update standards. Several important events have characterized the audit environment in recent years. The spread of audits corresponds to a fundamental shift in patterns of governance in advanced capital market economies. An additional change in the audit environment that has affected auditing practices is the advance in information technologies. The acceleration of these developments in recent years has been so significant that its path is not comparable with any preceding period. Deyganto (2021).

H5: Audit firm use of technology has positive and significant effect on auditors' independence.

Audit Firm's Management support

From a managerial standpoint, corporate executives should recognize the critical role of auditors in ensuring the integrity and reliability of financial reporting. Executives should prioritize fostering open communication and collaboration with auditors, promoting transparency and accountability in the audit process. By cultivating a culture of trust and mutual respect, executives can strengthen the auditor-client relationship and facilitate more effective audit engagements. Moreover, executives should support regulatory efforts to enhance auditor independence and promote audit quality, recognizing the long-term benefits of transparent and reliable financial reporting for stakeholders and the broader economy

H6: Audit Firm's Management support has positive and significant effect on auditors' independence.

2.1.7 Auditing in Ethiopia

The history of Ethiopia's supreme audit institution (SAI) is related to the 1931 constitution, which stated the importance of the proper collection of the government revenue and the necessity of setting procedures to control expenditures. However, the constitution failed to stipulate the need for government auditing and establishing a Supreme Audit Institution. But later, proclamation No. 69 of 1944 established the first legal audit institution called Audit Commission. Under this proclamation the commission was responsible for the audit of the accounts of the Ministry of Finance, whereas the financial transactions of other ministries were inspected and controlled by the Ministry of Finance itself. Though the proclamation established sort of the first government audit institution, the commission was not independent of the ministry as far as its professional freedom is concerned. Besides, its audit coverage is limited to only to certain government departments. However, these shortcomings were resolved after two years through the amended proclamation No. 79 of 1946. The amended proclamation centralized the audit of all government accounts less than one audit department called the Audit and Control Department, under the leadership of the Comptroller and Auditor General reporting to the Prime Minister. Although the power and duties of the commission were substantially increased the commissioner still lacked independence from the executive as he was reporting to the prime minister. The Audit and Control Department continued to operate until it was amalgamated with the Ministry of Finance's control department without any legislative provision in 1952. This was a major setback in the process of developing an independent national audit institution. But after three years, the revised constitution of 1955 established a relatively independent audit institution. Articles 120 and 121 of the revised constitution of 1955 established a separate and independent audit entity accountable to the emperor and to parliament. These articles required the auditor general to report regularly to the emperor and parliament on the financial operations of the government. The articles also empowered the auditor general to access all books and records pertaining to government accounts. However, the constitution did not stipulate the detailed functions and reporting requirements of the Office of the Auditor General until Decree No. 32 of 1958 which articulated the functions of the office including reporting responsibility. Later, an amended legislation was issued as proclamation 179/1961. The new proclamation, in addition to defining powers and duties, it laid down the conditions regarding the appointment and independence of the auditor general as well as the reporting procedures. The provisions of this legislation was a mile stone as the office of auditor general has acquired a higher

degree of independence to carry out regularity audits; but the proclamation lacked a mandate for expanding the scope of the office's audit to carry out performance or value for money audits. Accordingly, the office has to wait until proclamation No. 164/1979. Proclamation N0.164/1979 increased the traditional power and duties of the Office of Auditor General considerably by empowering the office to conduct efficiency and effectiveness (performance) audits. However, the proclamation failed to incorporate the reporting and remuneration aspects of independence which are part and parcel of the basic necessities for effective operation of a Supreme Audit Institution. (AABE, 2023)

2.2. Empirical Literature Review

Titus et al (2014). Factors Affecting External Auditors' Independence in Discharging Their Responsibility: A Survey of Medium Level Auditing Firms in NAIROBI: the study aims to establish the factors that affect the independence of the external auditors & to analyze how provision of non-audit services, audit tenure and how large proportion of audit fees affect the auditors' independence. The study concludes that audit firm tenure affects audit firm independence, it was established that forcing a change of auditors lowers the quality of audits and increase their costs. The longer an auditor is with a company the more it learns about its personnel, its business and its intrinsic values. The study recommends that external auditors must maintain quality in accordance with the generally accepted auditing standard when accumulating and evaluating the auditing evidence as it is important in having better result of an audit process.

Shumie, (2016) in his study "Determinants of Perceptions of External Auditors Independence in Ethiopian Private Audit Firms: revealed that level of competition in the audit services market, tenure of an audit firm serving the needs of a given client and size of audit fees received by audit firm in relation to total percentage of audit revenue do have negative and significant effect on auditors independence and the provision of non-audit service has positive significant effect on auditors' independence. Size of audit firms and existence of audit committee do not have significant effect on auditor independence for this study. Client related factors and industry situation do have significant effect on auditor's independence. The main recommendation is that auditors should remain strictly independent in mind and in appearance.

Sinaga & Sinaga (2016). The Effect of Audit Firm Age and Audit Tenure on Audit Quality: in there study findings partially showed that audit firm age has no significant effect on audit quality

while audit tenure showed that there is a significant effect on audit quality. In addition to the findings mentioned, it simultaneously showed that audit firm age and audit tenure on audit quality. When the two variables are combined it affects the audit quality. This means that the two variables, audit firm age and audit tenure should go hand in hand together in achieving audit quality. Audit firm age, although not significant, must be taken into consideration. The longer the firm, it is expected to increase audit quality. Audit tenure has to do with objectivity in which it will lead to audit quality. Long tenure is avoided by following the government regulations. As much as possible, in every audit engagement, audit work must appear to be very objective, unbiased, and impartial thus resulting to high audit quality.

Albeksh, (2017). In his study “Factors Affecting the Independence of the External Auditor within the Auditing Profession: which aimed to find out the factors affecting the independence of the external auditor in the auditing profession, which is considered one of the main factors that has a great effect on the profession of auditing and diagnose those the factors which are classified into objective factors and other personal which affects to varying degrees on independence of the external auditor, and In order his help avoid the negative effects of these factors on the independence , has been highlighted on literature of independence of the external auditor in the auditing profession and has been used both of the historical approach, inductive approach and descriptive approach to determine the impact of the factors on independence of the external auditor The study has reached a number of findings the most important of that the auditing standards and professional behavior are the most impact factor on the independence of the auditor and that the integrity, honesty and truthfulness of the qualities that must be provided by the independent auditor. The study concluded with a set of recommendations the most important that there is a need to adopt all policies and procedures that lead to preserve the independence of the auditor, especially creating the environmental circumstances leading to the achievement of the required independence and participating in achieving the required quality for the auditing profession.

Esraa & Ahmed (2020). Explore In their study entitled “Exploring the Impact of Mandatory Audit Firm Rotation on Audit Quality: Lack of audit quality and subsequent audit failures result mainly from a lack of auditors’ independence and professional skepticism which are considered to be a consequence of the extended audit firm-client relationship. The findings indicated that auditors perceived mandatory audit firm rotation to have a positive effect on auditor’s independence and

professional skepticism, a negative effect on client-specific knowledge. Industry specialization can offset the negative effect of mandatory audit firm rotation on client-specific knowledge. Even though the mandatory rotation of audit firms costs more, mandatory audit firm rotation increases the independence of auditors, professional skepticism, and audit quality which is relatively more than the costs.

Addisu et al (2021) this study was examined factors affecting auditors' independence with reference to private audit firms in Ethiopia. Accordingly, the result of regression analysis showed that size of audit firm, size of audit fee, professional audit standard, competition, existence of audit committee and information technology have positive and statistically significant effect on auditors' independence. Whereas, provision was not statistically significant. Based on the findings of the study, the researcher recommended that for audit firms in Ethiopia have to work on statistically significant variables due to fact that they have positive influence in improving auditors' independence.

Deyganto (2022). The aim of this study was to identify the determinants of external auditors' independence in Ethiopia. The findings of study showed that ethical awareness of auditors, training, and learning, audits firm size, the competition level of audit service, the existence of an audit committee, audit tenure, the performance of non-audit service, and professional audit standards were statistically significant. However, the size of audit fees and information technology utilization were not statistically significant. Therefore, the researchers forwarded possible recommendations to private audit firms in Ethiopia based on statistically significant variables to improve the auditors' independence.

2.3. Research Gap

Most of the studies conducted in this study area were in other nations and some of the studies conducted were used descriptive research design which lacks to explain the relationship between independent variables and dependent variable and the cause and effect of each independent variable on the dependent variable, for instance Albeksh, (2017). This study were added two factors that were not explored before on the previous studies conducted in Ethiopia such as audit firm age and management support.

2.4 Conceptual Framework

The conceptual framework links the independent variables to dependent variables. In this model variables such as Size of audit firm, Audit Tenure, Provision of non-audit services, Audit Firm Age, Management Support and Audit firm technology independent variable and Auditors' independence dependent variable.

Figure 1: Conceptual Framework

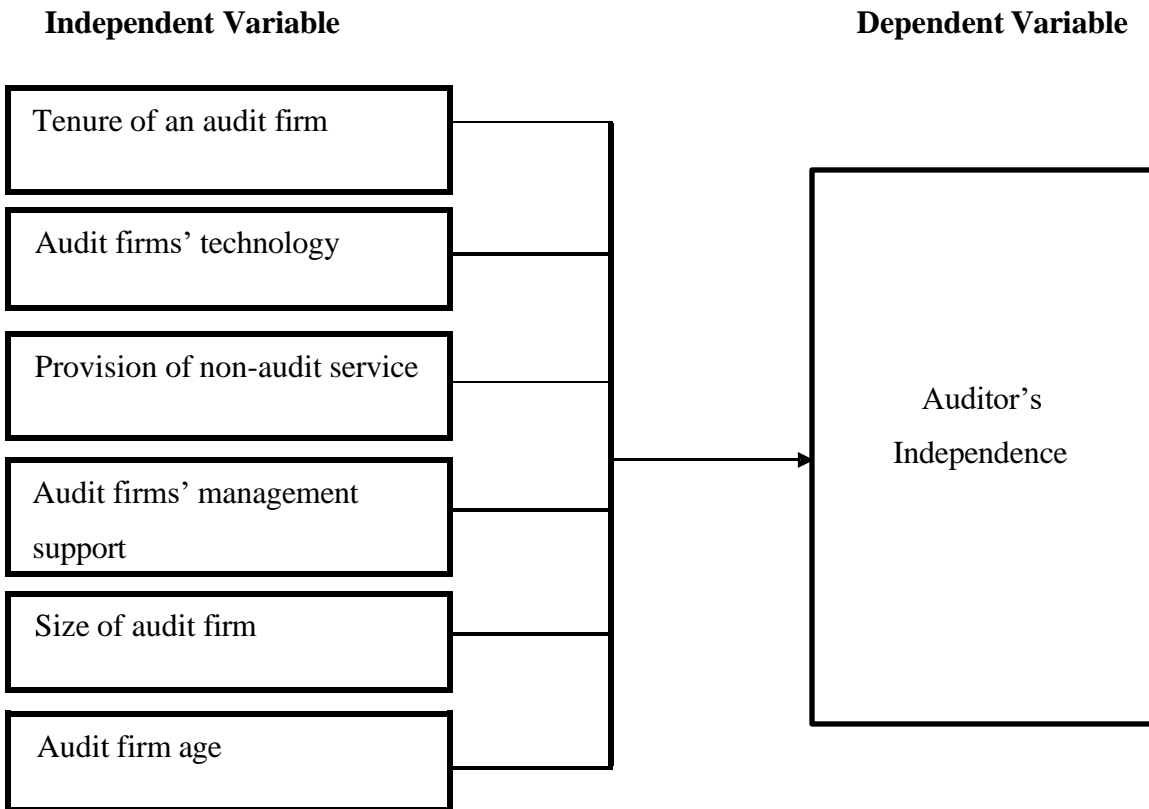


Table 2.1: Sources of Research Variables

No.	Researches	Variables
1	Asmamaw (2018); Albeksh, (2017); Stephen et al (2015)	Tenure of an audit firm
2	Deyganto (2021), Nasution&Östermark (2013), Addisu et al, (2021)	Audit firms' technology
3	Kang et al., (2018) Addisu et al, (2021), Deyganto (2021)	Provision of non-audit service
4	Erwin , (2023)	Audit firms' management support

5	Addisu et al, (2021); Asmamaw (2018) and Albeksh, (2017	Size of audit firm
6	Ligthelm, (2012)	Audit firm age

CHAPTER THREE

RESEARCH DESIGN AND METHODOLOGY

3. INTRODUCTION

This chapter describes the research methodology that was used in the study. It discusses the research design with respect to the choice of the design. It was also discussed the population of study, sample and sampling techniques, data collection methods as well as data analysis and data presentation methods that was employed in the study.

3.1 Research Design

The study employed explanatory research design which enables to explain the relationship between six independent variables such as audit firm size, audit tenure, provision of non-audit service, audit firm age, management support and audit firm technology and one dependent variable auditor's independence.

3.2 Research Methodology

The study used Mixed Research Methods That involves combining quantitative and qualitative approaches to gain a comprehensive understanding of the factors affecting external auditors' independence. It can provide both statistical evidence and rich contextual insights.

3.3 Data Sources

The study used mainly primary data sources. Primary data were collected directly from the respondents by distributing questionnaires. To collect primary data structured questionnaires was used.

3.4 Data Collection methods

The necessary primary data was collected through questionnaire. The structured questionnaire used consists of closed ended questions. Along with some of the closed ended questions are five score Likert scales to provide respondents a wider range of alternative with end points where "5" the level of agreements are represented by 1 to 5. Strongly agree 5, agree 4, 3 neutral, disagree 2, and strongly disagree represented by 1. The questionnaires are adopted from previous studies.

3.5. Target Population

The target population for this study was the group of individuals that the study intends to conduct research in and draw conclusions from. According to (AABE, as of May, 2023) there are 130 private audit firms Addis Ababa. Target population to the study were 130 private audit firms in Addis Ababa.

3.6. Sampling Technique

The study used both probabilistic and non-probabilistic sampling method to select the samples. In order to give equal chance for all private audit firms in Addis Ababa the study was used simple random sampling technique. By using simple random sampling technique, the study was selected a sample of 99 private audit firms. Employees of each external private audit firm was selected by using convenience sampling method therefore, the study was selected one auditor from each external private audit firms.

3.7. Sample Size

Sample size for this study was determined by using scientific formula of Yamane (1967) and the samples that was selected was represented 95% of the total population.

To find the sample size (n)

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

Where

$$n = \frac{130}{1 + 130 * (0.05^2)}$$

n = sample size

$$n = \underline{99}$$

N = total population

e = sampling error (5%) source: Yamane (1967)

3.7. Data Analysis Methods

The data presented was analyzed through descriptive statics and regression method of analysis. Descriptive statistics are broken down into measures of central tendency and measures of variability (spread). Measures of central tendency include the mean, median, and mode, while measures of variability include standard deviation, variance, minimum and maximum variables. Regression analysis is a statistical method that shows the relationship between two or more

variables. Usually expressed in a graph, the method tests the relationship between a dependent variable against independent variables. Typically, the independent variable(s) changes with the dependent variable(s) and the regression analysis attempts to answer which factors matter most to that change.

3.8. Ethical Considerations

The study follows thoroughly the research ethics. In this study, privacy, confidentiality, data protection, and voluntary nature of participation was considered the significant ethical issues. Prior to distribution of questionnaires, the researcher asked for permission to conduct the research with sample respondents. Maximum efforts was made to make respondents feel secure and confidentiality. All assistance, collaboration of others, and sources from which information was drawn was acknowledged. Accordingly, study purposes was clearly stated to the respondents and all the data collected was kept confidential. Moreover, all citations was referenced in ethical ways.

3.9. Reliability Test

According to Habidin et al., (2015) the acceptable level of the Cronbach's coefficient alpha for each variable is at least 0.7. Therefore, if each variable has a Cronbach's coefficient alpha of at least 0.7, the questions are considered credible. The internal consistency and reliability of the questions will be given a higher ranking if the outcome is close to 1. Reliability of an object or scale can range from 0 to 1. The Cronbach's alpha model has been employed in this study. The researcher tested the reliability of the measurements by using 16 samples and 33 items. The results are displayed here under.

Table 3.1: Reliability Test

Independent variable and Dependent variable	Cronbach Alpha	NO of In the scale
Audit Tenure	.712	8
Provision of non-audit service	.875	6
Audit firms' management support	.706	3
Size of Audit firm	.726	6
Audit firms' technology	.839	3

Audit firm age	.837	7
Over all	0.736	33

Source: own survey, 2023

CHAPTER FOUR

RESULTS AND DISCUSSIONS

4. INTRODUCTION

The findings of the researcher's investigation, which followed the methods outlined in chapter three, are presented in this chapter. It contains the respondents' general background information, a thorough explanation of the objectives, an examination of descriptive statistics, and correlation and regression analyses performed using SPSS version-23.

4.1 Response Rate

Completion rate for the survey in this study is 84.85 % while 99 questionnaires were distributed and only 84 were successfully returned. So, the sample size for the analysis of this study is 84.

Table 3 response rate

Questionnaires Distributed	Questionnaires Returned	Percentage
99	84	84.55

Source: (survey 2023).

4.2 Demographic Characteristics of Respondents

Table 4 Respondents profile/demographic characteristics

		Frequency	Percentage
Gender	Female	27	32.1%
	Male	57	67.9%
	Total	84	100.0%
Age	20-30 years	21	25.0%
	31-40 years	43	51.2%
	41-50 years	13	15.5%

	above 51	7	8.3%
	Total	84	100.0%
Experience	<2	7	8.3%
	2-5	37	44.0%
	6-10	31	36.9%
	above 10	9	10.7%
	Total	84	100.0%
Education	Diploma	0	0.0%
	Degree	53	63.1%
	master and above	31	36.9%
	Total	84	100.0%

Source: own survey, (2023)

4.2.1 Gender of Respondents

As it is displayed in the table above, in this study majority of the respondents are male which represent 67.9% of the total respondents. The remaining 32.1% of respondents are females. It implies that more males are engaged on the external auditing service activities than females while still some of the females are participating on it.

4.2.2 Age of Respondents

As it is displayed in the table 4.2 above majority of the respondents are aged under the categories of 31-40 (51.2%) followed by those who are aged between 20 & 30 (25%). The remaining 15.5 and 8.3 percent of respondents are aged under the categories of 41-50 and above 50 respectively. Based on the data it is possible to conclude that the peoples serving in the external auditing organization are distributed in all age categories while most of them are young. Previous researchers found a significant correlation between auditor age and independency level. Anil K (2018), for example, did a survey with m 530 external auditors in the Gwalior region, ranging in age from 15 to 80 years. Auditor's independency perception is to vary with age, according to the findings.

4.2.3. Education Level

Other important information displayed on the table 4.2 is education levels of respondents. From the total respondents 63.1% of respondents indicate that they have BA degree followed by 36.9% of respondents who indicates that they are master's degree graduates. Based on the information it is possible to conclude that all of peoples working on external auditing are well educated and it will enhance their level of confidence and independency.

4.2.4 Experience

Another important information displayed in the table above is experience of employees who are working in the external audit firm. Based on the information majority of the respondent (44%) are indicating that they have 2-5 years' experience in the external auditing activities followed by these who are experienced from 6-10 years which accounts 36.9% of the respondents. The remaining 10.7 and 8.3 percent of the respondents indicate that they are experienced more than ten years and less than two years accordingly. It implies that majority of the auditors in the external audit are working more than five years in the sector.

4.3 Descriptive analysis of Age of firms (continuous variable)

In the following table the researcher investigates the age of external audit firms and the results are displayed in the table

Table 5 Age of audit firm

	Minimum	Maximum	Mean	Std. Deviation
Firm age	8.00	16.00	11.0476	2.60632

Source: own survey, 2023

In the table above the mean value 11.04 is indicating that on average the external audit firm's age is around 11 years. The minimum value in the table 8 is indicating that the minimum age value of external auditor's firms is eight years. Moreover, the maximum value 16 indicate that the highest age of external audit firm in the current study are 16 years.

4.4 Descriptive Analysis on Likert Scale Questions

The study's investigation of the variables influencing external auditors' independence and degree of independence in the Addis Ababa case makes use of descriptive statistics. A mean descriptive

tool is employed in order to achieve this objective. The standard deviation is also used to calculate the degree of departure a response has from the mean. Other minimum and maximum values are also available. The degree of agreement among respondents for each question was determined by the researcher using the mean criteria listed below.

Table 6 mean criteria

No	Mean range	Response options
1	(1,00, 1.80	Strongly disagree
2	1.80, 2,60	Disagree
3	2.60, 3.40	Neutral
4	3.40, 4.20	Agree
5	4.20, 50	Strongly agree

Source: (Al-Sayaad et.al 2006).

4.4.1 Audit Tenure

The duration of the audit firms' participation with the same auditee is known as the audit tenure (Hartadi, 2009; Nuratama, 2011). The impact of audit tenure on auditor independence is typically discussed in relation to this problem. With this regard the researcher in this study investigates the current level of Audit tenure as it is displayed in the table below.

Table 7 Audit Tenure

	Mini	Maxi	Mean	Std. D
I have served for the company for long period of time	1	5	2.73	.855
Our company provides audit services for one client for so many years	1	4	3.43	.833
Long tenure of an audit firm serving the needs of a given client can enhance its auditor's independence.	1	5	2.95	.820
There is sufficient Rotation of auditors in our firm	1	4	2.49	.768

It is not easier for the management to influence the operations of Auditors those who have worked for a long time with a certain client	1	5	2.50	1.024
Our company is Large enough considered to be more able to resist Pressures from client's management.	1	5	2.79	.879
Auditors tend to lose their professional skepticisms if the audit tenure is over many years.	1	4	3.13	.833
Our firm firms is serving with large tenure	1	5	2.73	.855
Over all				

Source: own survey, 2023

As it is displayed in the above table the highest mean value is 3.43 which is recorded item two stated as “Our Company provides audit services for one client for so many years” the mean value on this item is equivalent with response rate of “Agree” based on our criterion. It implies that audit firm companies are providing audit service for one client for several years.

The lowest mean value is recorded on item four with a statement “There is sufficient Rotation of auditors in our firm” with mean value of 2.49 correspondents with response rate of “Disagree”. It implies that external audit firms are not working on auditors shift in turn it will affect their level of independency. Another lowest mean value of 2.50 is recorded on item five (It is not easier for the management to influence the operations of Auditors those who have worked for a long time with a certain client) which is equivalent with response rate of “Disagree”.

The remaining items mean values are equivalent with response rate of neutral it implies that respondents are not confidential on the issues like their firm is serving with large tenure and their company is large enough to compromise their client's influence.

4.4.2 Non audit service

Non-audit services are any services that do not fall under the purview of statutory audit services. These services usually include tax services, such as tax planning, tax compliance, and tax advising;

and information technology services, such as IT and other control evaluations. The auditors may be chosen to offer non-audit services inasmuch as their qualifications and background position them as the most suitable and competitive provider.

Table 8 Non audit service

	Minimum	Maximum	Mean	Std. Deviation
Our firm allowed us to perform non-audit services for client.	1	5	2.73	.855
Financial statements of our firm are clearly disclosing how much is earned from non-audit service.	1	5	2.73	.855
I believe that our firm revenue generated from non-audit service not exceed the revenue generated from audit service.	1	5	0.211	1.497
There is no Restrictions on non-audit services	2	4	3.64	.652
Existence of non-audit services impaired (loss) the independence of external auditors.	1	5	2.79	.879
Non-Audit services provision enhances the auditor's knowledge of the client	1	5	3.25	1.016
Over all				

Source: own survey, 2023

Based on the information displayed above the highest mean score is recorded on item four stated as “There is no Restrictions on non-audit services” with mean value of 3.64 it is equivalent with response rate of “Agree” it implies that respondents are believe that providing non audit service is not restricted. The second highest mean value is recorded on item six stated as “non-audit Services provision enhances the auditor’s knowledge of the client” with a mean value of 3.25

which is correspondent with respondent rate of neutral. It implies that respondents are not agree or disagree on the issue that non audit service provision enhances the auditor knowledge of the clients. The lowest mean value is reported on the item three stated that “I believe that our firms revenue generated from non-audit service not exceed the revenue generated from audit service” which has mean value of 2.11 equivalent with response rate of “Disagree” based on our criterion. It imply that respondents are perceived that the firms non audit revenue will be higher than their audit related revenue.

4.4.3 Management support

Table 9 Management support

	Minimum	Maximum	Mean	Std. Deviation
There is higher management commitment to strengthen external auditors	1	5	2.49	.814
Management of our audit firm support Auditors by providing training in order to improve their skill and update with the profession.	1	5	2.81	1.000
Senior management supports audits personnel	1	5	2.61	.836
Over all				

Source: own survey, 2023

The above table contains information regarding about the respondents perception about managers support for external auditors. Based on the data the lowest mean value is recorded on item one stated as “There is higher management commitment to strengthen external auditors”. The mean value is equivalent with response rate of “Disagree”. It implies that respondents are perceived that their managers are not supporting them for better auditor’s independency.

Item two “Management of our firm support Auditors by providing training in order to improve their skill and update with the profession” and item three “Senior management supports audits

personnel” have mean values of 2.81 and 2.61 which are equivalent with response rate of “Neutral” based on our criterion. It implies that managers are not sufficiently supporting their auditors by providing training and senior managers are not committed to support auditors.

4.4.4 Size of Audit firm

Table 10 Size of Audit Firm

	Mini	Maxi	Mean	Std. D
Our firm is strong enough to keep its employee confidential.	1	5	2.79	.879
Our firm has sufficient financial strength.	1	5	3.00	.878
Our company has sufficient number of offices.	1.00	5.00	2.5857	.87909
There is good Human capital (Education level, work experience, skills, and Employee competence) in our organization	1.00	5.00	3.0000	.87811
Our company can resist management pressure as it has financial strength.	1	4	2.51	.814
There are enough numbers of audit professional in our firm.	1	4	2.80	.847
Over all				

Source: own survey

The above table contains information about the size of external audit firms. Based on the information the lowest mean value is 2.51 which is recorded on item four stated as “Our Company can resist management pressure as it has financial strength”. The mean value on this item is equivalent with response rate of “Disagree” based on our criterion. It implies that moreover other lowest mean value is recorded on item three “Our company has high Revenues and sufficient number of offices” the mean value of the item is equivalent with response rate of “Disagree” based on our criterion. It implies that most of the external audit firms have not sufficient office rooms for their staff it may affect their level of independency.

The remaining items item one (Our firm is strong enough to keep its employee confidential) item two, (Our firm has sufficient financial strength) item four (There is good Human capital (Education

level, work experience, skills, and Employee competence) in our organization) and item six (There are enough numbers of audit professional in our company) have mean values of 2.79, 3.0, 3.0 and 2.81 respectively. All of the mean values are equivalent with response rate of “Neutral” it implies that respondents are not confidentially agree on the issues.

4.4.5 Audit Firms’ Technology

Table 11 technology

	Minimu m	Maximu m	Mean	Std. Deviation
Our firm used Advanced technology that are relevant to the industry now and in the future	1	5	2.56	.998
Our firm use technology to down the time taken to conduct an audit	1	5	2.64	.90037
There is an effective combination between human capital and technology in our firm	1	5	3.00	.878
Overall				

Source: own survey, 2023

Item one stated as “Our firm used Advanced technology that are relevant to the industry now and in the future” has mean values of 2.56 followed by the mean value of 2.64 reported on item two stated as “Our firm use technology to down the time taken to conduct an audit”. The mean values on the items are equivalent with “Disagree” and neutral” accordingly. It implies that external audit should work on technology to improve the audit qualities and auditors independency.

4.4.6 Auditor Independency

The independence of the external auditor is referred to as auditor independence. Integrity is a defining characteristic, and the auditor must do their duties freely and impartially. The degree of independence of the auditors in the case were examined in this study.

Table 12 Auditor Independence

	Mini	Maxi	Mean	Std. D
As an Auditor are I am independent in appearance.	1	4	2.49	.768
As an Auditor are I am independent in mind.	1	5	2.50	1.024
I do exercise my independence with my audit duties.	1	4	2.47	.768
I got all supports from my audit firm while I exercise my independence.	1	5	2.50	1.024
My independence is not compromised as a result of gifts I received from clients.	1	4	2.07	.929
I feel my independence does contribute to the existence of audit profession.	1	5	3.00	.878
I feel my independence does contribute to the existence of audit	1	5	2.50	1.024
Over all				

Source: own survey, 2023

Auditor independency is measured by seven items. From the items item five (My independence is not compromised as a result of gifts I received from clients.) has mean value of 2.07 followed by mean value of 2.47 reported for item three stated as “I do exercise my independence with my audit duties”. Both of the mean values are equivalent with response rate of “Disagree”. It implies that auditor independence is affected by gifts and respondents are not exercise their independency with their audit duty.

4.5 Inferential Analysis

Various statistical tests for hypothesis testing are the focus of inferential analysis, which assesses if validity data can be taken to suggest a conclusion or conclusions. It also relates in any way to population value estimation. The main method used to complete the process of interpretation is inferential analysis. Multiple linear regressions, correlation, and coefficient analysis were the primary inferential techniques utilized in this work to examine the relationship between the dependent and independent variables.

4.5.1 Correlation analysis

Table 13 Rule of thumb

Range of coefficient	Descriptive of strength
±0.8 to ±1.00	Very strong
±0.61 to ±0.8	Strong
±0.41 to ±0.60	Moderate
±0.21 to ±0.40	Weak
±0.00 to ±0.20	No relation

Source: (Bhattacharjee, 2012)

4.5.2 Pearson Correlation analysis

When there are two or more independent variables, multiple correlations and the equation defining such a connection are employed. In this case, the link between the independent and dependent variables was computed using Pearson correlation.

The Pearson correlation results for the relationship between the dependent and independent variables are shown in the table below.

Table 14 Correlation

Correlations

	AI	AFT	NAS	SIZE	MSS	TEC	Firm age
AI Pearson Correlation	1	.746**	.785**	.711**	.612**	.793**	.574**
Sig. (2-tailed)		.000	.000	.000	.000	.000	.000
N	84	84	84	84	84	84	84
AFT Pearson Correlation	.746**	1	.655**	.511**	.324**	.460**	.237*
Sig. (2-tailed)	.000		.000	.000	.003	.000	.030
N	84	84	84	84	84	84	84
NAS Pearson Correlation	.785**	.655**	1	.769**	.488**	.655**	.543**

	Sig. (2-tailed)	.000	.000		.000	.000	.000	.000
	N	84	84	84	84	84	84	84
SIZE	Pearson Correlation	.711**	.511**	.769**	1	.627**	.746**	.671**
	Sig. (2-tailed)	.000	.000	.000		.000	.000	.000
	N	84	84	84	84	84	84	84
MS	Pearson Correlation	.612**	.324**	.488**	.627**	1	.586**	.628**
	Sig. (2-tailed)	.000	.003	.000	.000		.000	.000
	N	84	84	84	84	84	84	84
TEC	Pearson Correlation	.793**	.460**	.655**	.746**	.586**	1	.694**
	Sig. (2-tailed)	.000	.000	.000	.000	.000		.000
	N	84	84	84	84	84	84	84
firm age	Pearson Correlation	.574**	.237*	.543**	.671**	.628**	.694**	1
	Sig. (2-tailed)	.000	.030	.000	.000	.000	.000	
	N	84	84	84	84	84	84	84

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

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

Source: own survey, 2023

The results in table above indicate that, there is positive and significant relationship between all independent variables and dependent (Auditor Independency). Technology and auditor independency have the largest correlation coefficient with the r value of 0.793. Non-Audit service and external auditor independency have the correlation coefficient ($r = 0.785$, $p < 0.01$), the followed by correlation between Audit firms tenures and auditor independency with r values of 0.746 followed by the correlation coefficient between size of audit firm and auditor independency with values of ($r = 0.711$ $P < 0.01$). the next highest correlation coefficient of 0.612 between management support and auditor independency the last significant correlation coefficient values is between Age of audit firm and auditor independency $r = 0.574$ and the p value 0.00 indicate that this coefficient is significant.

The Pearson correlation coefficient between each pair of independent variables should not exceed 0.9, according to (hair et al., 2006 cited in mengistu 2016). This is because if the correlation value exceeds 0.90, the data may be suspected as having a major collinearity problem. The highest

correlation coefficient in the table above is 80 percent, which is between size and Age, and it is still less than 0.90. As a result, it is believed that there would be no multi-collinearity issues in this study.

4.5.3 Multiple linear regressions

4.5.3.1 Assumption test

A. Normality assumption

The researcher used both Analytical and graphical methods to check the normality assumption of the study

1. Analytical method

As the sample size is more than 50 and it is a parametric analysis the researcher used skewness and Kurtosis to check the normality assumption based on Analytical method.

Table 15 Skewness and Kurtosis

Descriptive Statistics

	N	Skewness		Kurtosis	
	Statistic	Statistic	Std. Error	Statistic	Std. Error
AI Valid N (list wise)	84 84	.631	.263	-.351	.520

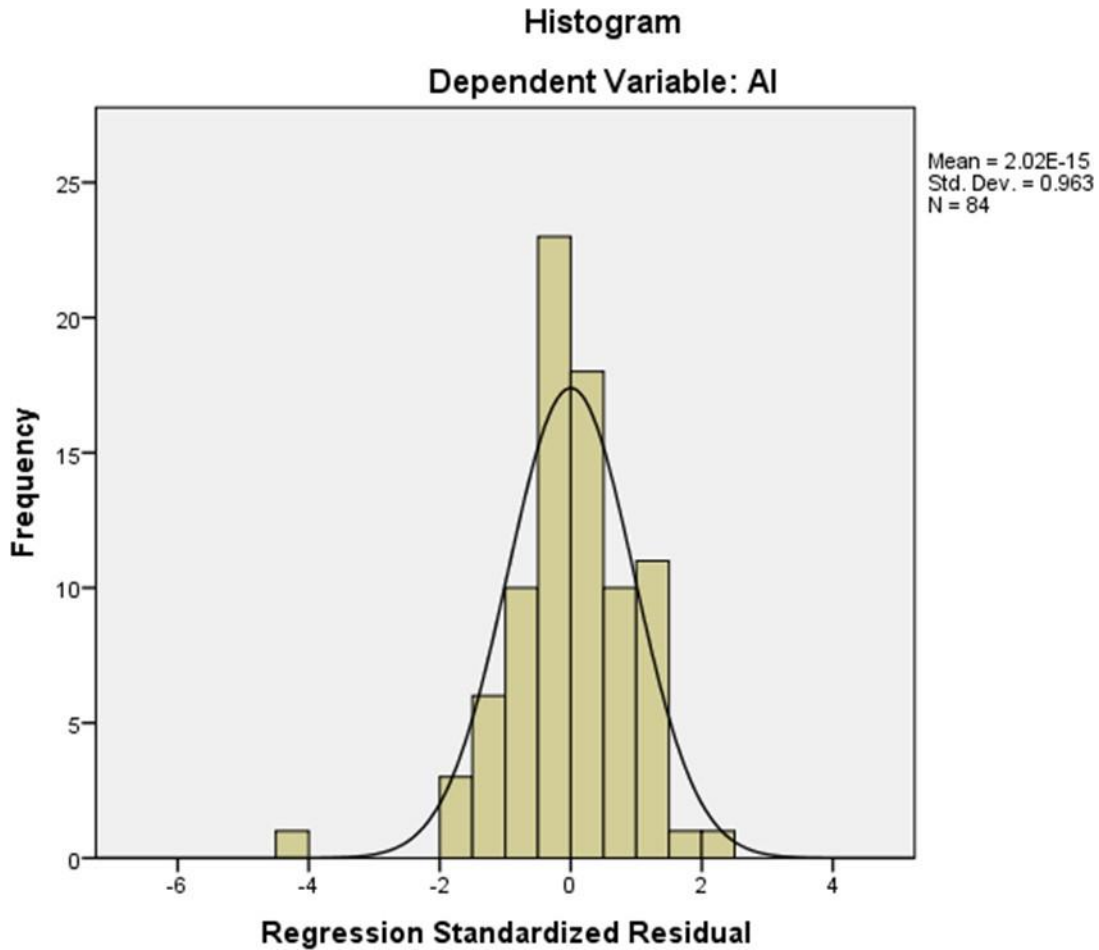
Source: SPSS output (2023)

In the above table the skewness level for the dependent variable 0.631 is very close to Zero. Such value indicate that the data is normally around the mean. It implies that the data is normal according to George & Mallery these scholars argues that the values for asymmetry and kurtosis between -2 and +2 are considered acceptable in order to prove normal univariate distribution (2010).

2. Using Graphical method to check normality

When reviewing the data, the analyst should plot the standardized residuals against the predicted values to see if the points are evenly distributed over all independent variable values. To test the

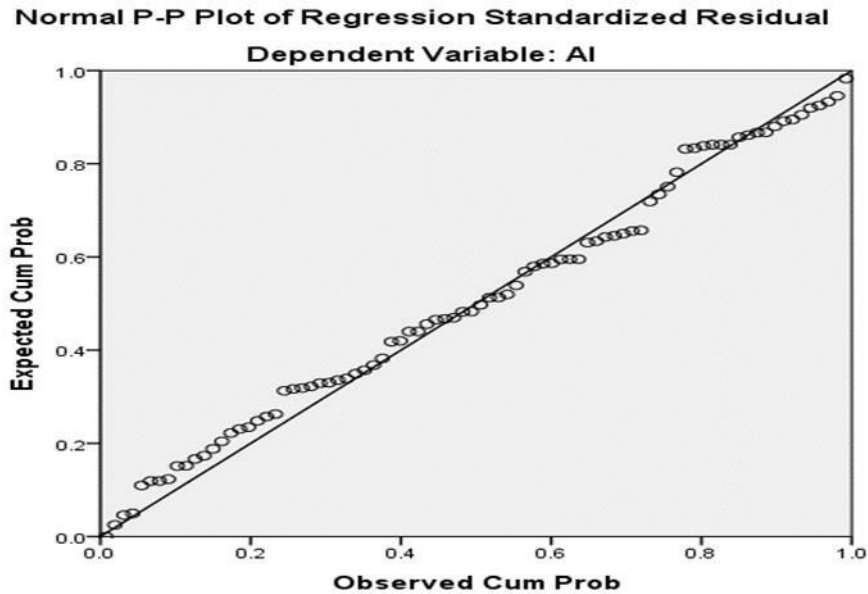
hypothesis, if the data come from normal population, the data in this study was plotted on a scatterplot and Histogram.



Source: own survey, 2023

Figure 2 Histogram

As it is shown in the above Figure the histogram look like a bell shaped. It implies that it is approximated a bell-shaped and normal distribution. More over The standard deviation in the histogram measures the width of the bell curve. Still the SD value of .963 is less than two and it indicate that the data is normal.



Source: own survey, 2023

Figure 3 Normal PP-plot

In the above Normal Probability plot as it is clearly seen the observed are plotted diagonally and very close with the expected normal line. It shows that the normality criterion is met and data set is approximately normally distributed.

B. Checking absence of multi-collinearity using VIF values

Multi-collinearity, which arises when the independent variables (explanatory variables) are highly interrelated, should not be present in the data. When independent variables exhibit multi-collinearity, determining the precise variable that contributes to the variance in the dependent variable becomes difficult. The Variance Inflation Factor approach is the best way to test for the assumption. The VIF values of all explanatory variables are less than 10, and the majority of the VIF are less than 5. As shown in the tables below, the VIF values of all explanatory variables are less than 10. It shows that the assumption is not violated.

Table 16 VIF values to check absence of multi-collinearity

Model	Collinearity Statistics	
	Tolerance	VIF

1	(Constant)		
	AFT	.528	1.895
	NAS	.305	3.275
	SIZE	.266	3.763
	Firm age	.392	2.548
	MS	.521	1.921
	TEC	.351	2.847

Source: own survey, 2023

C. Checking auto correlation by using Duribn-watson

Even if the concept of autocorrelation is most often discussed in the context of time series data in which observations occur at different points in time can also occur in cross- sectional data when the observations are related in some other way, in our case autocorrelation is checked by calculating Duribn-watson and it is 1.645 which is between the acceptable range.

4.5.4 Model Fit

Multiple linear regression is the most common type of linear regression analysis. To explain the relationship between the factors and external auditor's independency, multiple linear regression is used as a predictive analysis in this study. Because it allows the researcher to account for all of these potentially significant factors in a single model, multiple linear regression is used. This strategy has several advantages, including a more precise knowledge of the relationship between each individual factor and the outcome.

Table 17 Model summary

Model Summary^b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.924 ^a	.854	.843	.26060	1.645

a. Predictors: (Constant), TEC, AFT, MS, firm age, NAS, SIZE)

b. Dependent Variable: AI

Source: own survey, 2023

The researcher examined the cause-and-effect relationship between external auditor independency and independent factors using Adjusted R squared in this study. Adjusted R-squared is a variant of R-squared that takes into account the number of predictors in the model. It's utilized in this study because it has the advantage of increasing when a new variable improves the model more than would be predicted by chance. When a predictor improves the model by less than expected, it declines. Typically, the adjusted R-squared is positive, not negative. It is always lower than the R-squared. The value of adjusted R² = .843 means that total variation in the dependent variable (Auditors independency) is explained or caused by 84.3 per cent of the change in the dependent variable cause by all independent variables. In other words, 15.7 (1-.843) per cent of the variation in overall Auditors independency cannot be explained by these six independent variables. So, there must be other practices that are not incorporated in the study to explain Auditors independency. The overall model was also significant, tested with the help of ANOVA. The results are given in table below.

4.5.5 ANOVA

Table 18 ANOVA

ANOVA^a

Model	Sum of Squares	Df	Mean Square	F	Sig.
1 Regression	30.706	6	5.118	75.356	.000 ^b
Residual	5.229	77	.068		
Total	35.935	83			

a. Dependent Variable: AI

b. Predictors: (Constant), TEC, AFT, MS, firm age, NAS, SIZE)

The above ANOVA table shows a strong relationship between the dependent and independent variables of the study with F-statistic or F-ratio of 75.356 for the overall analysis, and is worth-mentioning that the F-value is highly significant (as $p=.000<.01$).

4.5.6 Regression coefficient

Table 19 Regression coefficient

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-1.354	.221		-6.122	.000
	AFT	.613	.094	.388	6.490	.000
	NAS	.251	.080	.246	3.130	.002
	SIZE	-.119	.085	-.118	-1.395	.167
	firm age	.006	.018	.025	.353	.725
	MS	.207	.069	.179	2.975	.004
	TEC	.436	.076	.418	5.701	.000

Source own survey, 2023

As shown in the table above, all significant independent variable coefficients are positive, implying that as the value of the independent variable rises, the mean of the dependent variable (auditor's independency) increases. For detail analysis the largest beta coefficient is recorded on technology with standardized beta value of 4.18. moreover, Audit firm's tenures has large positive and significant effect on External Auditor independency a beta value (= 0.388), at 95 percent confidence level ($p < 0.05$), followed by coefficient value of 0.246 reported on the variable of non-audit service, the last significant effect is recorded between management support and auditor independency with standardized B values of 0.179 and p value of this coefficient indicate that it is significant at 95% confidence level.

The P value for size and age of firms are 0.167 and .725 accordingly which are higher than the alpha value of 0.05. It indicates that in the current study size and age of firms has not significant effect on external auditor's independency.

4.6 Discussion and Results

Based on the finding of the demographic variables the peoples serving in the external auditing organization are distributed in all age categories while most of them are young. Previous, moreover

all of peoples working on external auditing are well educated and experienced, it will enhance their level of confidence and independency. Additionally, more males are engaged on the external auditing service activities than females while still some of the females are participating on it.

The correlation analysis result in the above analysis indicates that, there is positive and significant relationship between all independent variables and dependent (Auditor Independency). Technology and auditor independency have the highest correlation coefficient. Non-Audit service and external auditor independency also have the highest correlation coefficient, the second ranked correlation is between Audit firm's tenures and auditor independency, followed by the correlation coefficient between size of audit firm and auditor independency. The last significant correlation coefficient values are between Age of audit firm and auditor independency.

Tenure of an audit firm: result of this study shows that Audit firms tenures with coefficient of regression [$\beta=0.388$] has positive and statistically significant since ($p < 0.01$). Hence, hypothesis H2 is accepted. This finding is consistent the finding of other studies results of Asmamaw (2018); Albeksh, (2017); Stephen et al (2015) and Nasution&Östermark (2013) who found out that the audit firm tenure has positive influence on independence of external auditor's independence. The regression result of the model regarding audit firm tenure was also clearly evidenced that there is statistically significant and positive relationship between independence and audit firm tenure.

Audit firm Technology: the result of this study shows that information technology with coefficient of regression [$\beta=0.418$] has positive and statistically significant since (p-value of < 0.01) level of significances. Hence, hypothesis H5 was accepted by researcher. This finding is inconsistent with research finding of Deyganto (2021); Nasution&Östermark (2013) information technology positive and statistically insignificant effect independence of external auditors but findings of Addisu et al, (2021) suggested that information technology has positive and statistically significant effect independence of external auditors. The finding implies that firm's technology has positive and significant effect on auditor's independence.

Provision of Non-Audit Service: the result of this study also shows that performance of non-audit service with unstandardized coefficient of regression [$\beta=0.246$] has positive and statistically significant since (p value of $0.002 < 0.01$) Hence, hypothesis H3 was accepted. This finding is inconsistent with finding of other studies results of Addisu et al, (2021) non-audit service has

positive and statistically insignificant effect on external auditor's independence and Kang et al., (2018) providing non-audit service by external auditors to the same clients has negatively affect their independence but findings of Deyganto (2022) is consistent with our study which implies that statistically significant and positive relationship between independence and non-audit service.

Audit Firm's Management support: result of this study shows that management support with coefficient of regression [$\beta=0.179$] has positive and statistically significant since (p-value of $0.004 < 0.01$). Hence, hypothesis H6 was accepted. This finding is consistent with E. Kurniawan (2023). The regression result of the model regarding management support was clearly evidenced that there is statistically significant and positive relationship between independence and management support.

Size of Audit Firm: result of this study shows that size of audit firm with coefficient of regression [$\beta=0.118$] has positive and statistically insignificant since (p-value of $0.167 > 0.01$). Hence, hypothesis H1 was rejected. This finding is inconsistent with the finding of other studies results of Addisu et al, (2021); Asmamaw (2018); Albeksh, (2017); Stephen et al (2015); Adane, (2014) and Carren (2013) who found out that the size of audit firm has positive and significant influence on independence of audit firm. The regression result of the model regarding size audit firm was clearly evidenced that there is statistically insignificant but positive relationship between independence and sizes of audit firm.

Audit firm age: result of this study shows that Audit firm age with coefficient of regression [$\beta=0.025$] has positive and statistically insignificant since (p-value of $0.725 > 0.01$). Hence, hypothesis H4 was rejected. This finding consistent with the finding of other studies results of (Ligthelm, 2012). The regression result of the model regarding Audit firm age was also clearly evidenced that there is statistically insignificant but positive relationship between independence and Audit firm age.

CHAPTER FIVE

CONCLUSTIONS AND RECOMMENDATION

5. INTRODUCTION

This chapter presents the main conclusions of the study, which were drawn from the data that were gathered as primary data. It also includes recommendations that were made in light of the conclusions that were drawn.

5.1 Conclusion

Conclusion is the process of making generalization based on findings of sample to total study population. Therefore, the researcher explored factors affecting auditors, independence. By keeping this objective in mind, the researcher collected the primary data through questionnaire developed in the form of Likert scale. By using SPSS, the analysis of both descriptive and inferential statistics has been done. Based on the findings from the regression analysis of the model, the researchers concluded that the auditors' independence was best explained by the explanatory variables included in the model. The study has shown a clear understanding of factors affecting auditors' independence in private audit firms. The finding of this research demonstrated that audit tenure, provision of non-audit services, , management support and information technology have positive and statistically significant influence on the auditor's independence whereas, audit firm age and the audit firm size has positive but statistically insignificant influence on the auditor's independence in Addis Ababa private audit firms.

5.2 Recommendation

Based on the conclusions above the researcher provide the following recommendations

I recommend auditors to have Integrity and sufficient sincerity when performing auditing tasks, to give priorities to organizational goals and respond calmly under pressure.

I recommend Audit firm's Management to provide training and assessment which helps auditors to enhance their independence and make sure weather the employees are satisfied with their current position and with their income.

I recommended Audit firm's Management to make a periodic rotation of auditors since it exposed the auditors to face independence problem or to compromise their independence.

I recommended the regulatory body (ABBE) to make sure that Revenue generated from non-audit service less than the revenue generated from auditing service and made a restriction on providing such service to auditees by the audit firm.

In order to ensure that auditors' independence is not compromised I recommend the regulatory body to assess the factors periodically and to make sure that the audit firms are comply with standards, rules and regulations.

I recommend Audit managers to supervise the audit engagement through the engagement period in order to ensure that auditors don't compromise their independence as a result of gift, special presences, and personal relationships with auditee and to make sure if they are independent in mind and in appearance during the audit engagement period.

I recommend Audit firms to be capable to maintain their employees, resist management pressure, to acquire enough number of skilled employees, to maintain suitable work environment, to have financial strength in order to enhance their auditor's independence.

Finally, I recommend Audit firms to cope-up with the existed and upcoming standards, technologies and to maintain compatibility between firms' technology and human capital and use relevant technology which helps the auditors to facilitate their work.

5.3 Future Research directions

Accordingly, there are some limitations in current study. In the beginning, it focused only on identifying the factors affecting auditor's independence in Addis Ababa, Ethiopia. The six explanatory variables incorporated in the model have explained 84.3% of the model the remaining 15.7% of changes in the independence of external auditors was explained by other explanatory variables that not included in the model. The future researcher shall incorporate variables to improve adjusted R2 with the same topic at the same study area. In other way, the findings of this study may be difficult to generalize about all cities or regions in Ethiopia since it was conducted only private audit firms in Addis Ababa.

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APPENDIX



COLLEGE OF BUSINESS & ECONOMICS

Department of Accounting and Finance

Post Graduate Program in Accounting and Auditing

Dear Respondents

This is a questionnaire to be filled by the key staff of private audit firms in Addis Ababa. This questionnaire is prepared by Selamawit Dereje to conduct the research by the title of 'Factors Affecting External Auditors' Independence in Ethiopia: in case of Private Audit Firms Addis Ababa. This research is carried out on the partial fulfillment of the requirements for the completion of a master's degree in Accounting and Auditing in AAU.

The purpose this study is to generate the necessary information for the assessment of Factors that affect External Auditor Independence of Private Audit Firms in the study area. Therefore, your honest and genuine co-operation in responding and filling the questionnaires is highly essential. Thank you! In advance for your time and patience in completing these questionnaires.

Part I:

Make a tick (☐) in the box ☐.

1. Gender:

Female Male

2. Level of education

TVET, Diploma Bachelor's degree Master's degree

Other (please specify) _____

3. Years of experience in auditing:

Less than 5 years'	6 - 10 years'	11 - 20 years'	Over 20 years'

4. Current position in your Audit firm

Junior/Associate Auditor	Senior Auditor	Audit Manager	Principal/ Partner

5. Age of audit firm

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

Part II

Your perception towards Factors Affecting External Auditor's Independence. In this section the researcher is seeking your specific perceptions towards Factors Affecting External Auditor's Independence. Please kindly indicate the appropriate scale for your opinion by ticking (√) on the spaces that indicate your choice from the options that range from 'strongly Disagree (SD), Disagree (D), Neutral (N), Agree (A) and strongly Agree (SA)'.

Auditor independence	SD	D	N	A	SA
As an Auditor are you independent in appearance.					
As an Auditor are you independent in mind.					
I do exercise my independence with my audit duties.					
I got all supports from my audit firm while I exercise my independence.					
My independence often compromised as a result of gifts I received from clients.					
I feel my independence does contribute to the existence of audit profession.					
The income I get has impact on my independence.					

Audit firm's tenures	SD	D	N	A	SA
The length of time the auditor has served the company (Client) has an effect on the auditors' independence.					
An audit firm that provides audit services for one client for so many years impair (loss) auditors' independence.					
Long tenure of an audit firm serving the needs of a given client can enhance its auditor's independence.					
Rotation of auditors in providing audit service helps to enhancing its independence.					

It is much easier for the management to influence the operations of Auditors those who have worked for a long time with a certain client to compromise their independence.					
Large audit firms are often considered to be more able to resist Pressures from client's management.					
Auditors tend to lose their professional skepticisms if the audit tenure is over many years.					
Audit firms with small tenure are also likely to face audit Independence problems.					

Non-Audit Services	SD	D	N	A	SA
Audit firms should be allowed to perform non-audit services for their audit client.					
Financial statements of audit firms should clearly disclose how much is earned from non-audit service.					
I believe audit firms revenue generated from non-audit service should not exceed the revenue generated from audit service.					
Restrictions on non-audit services may enhance investor perception of auditor independence, and their confidence and trust in audit.					
Existence of Non-audit services impaired (loss) the independence of external auditors.					
Non-Audit services provision enhances the auditor's knowledge of the client.					

Size of Audit Firm	SD	D	N	A	SA
Our firm is strong enough to keep its employee confidential					
Our firm has sufficient financial strength.					
Our company has high Revenues and sufficient number of offices					

There is good Human capital (Education level, work experience, skills, and Employee competence) in our organization.					
Our company can resist management pressure as it has financial strength.					
There are enough numbers of audit professional in our company					

Management Support	SD	D	N	A	SA
There is higher management commitment to strengthen external auditor's independence.					
Management of our audit firm support Auditors by providing training in order to improve their skill and update with the profession.					
Our firm Senior management supports audits personnel.					

Firm's Technology	SD	D	N	A	SA
Our firm used Advanced technology that are relevant and which helps our firm to cope up with the market.					
Our firm use technology to down the time taken to conduct an audit.					
There is an effective combination between human capital and technology in our firm.					