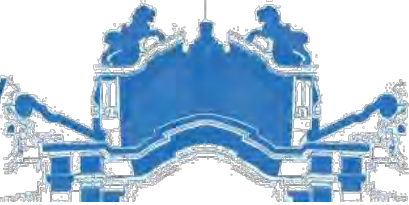




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**COLLEGE OF BUSINESS AND ECONOMICS  
DEPARTMENT OF ACCOUNTING AND FINANCE**

**The Assessment of Quality External Audit Services: Evidence from  
Grades 'A' Private Audit Firms of Ethiopia**

**A Project Paper Submitted to the Department of Accounting and Finance in  
Partial Fulfillment of the Requirements for the  
Degree of Master of Science in Accounting and Auditing**

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This is to certify that the Project Paper prepared by Zergaw Chemedda entitled: **“The Assessment of Quality External Audit Services: Evidence from Grades ‘A’ Private Audit Firms in Ethiopia”** and submitted in partial fulfillment of the requirements for the Degree of Master of Science in Accounting and Auditing complies with the regulations of the university and meets the accepted standards with respect to originality and quality.

Approval of Board of Examiners

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Internal Examiner

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## ***Abstract***

*The study has been conducted with the aim of assessing the quality of external audit services like quality of services and sufficiency of resources, exercises of professional skepticism, professional independence and objectivity and external auditors' communications.*

*To enable the researcher address the objectives of the study, a descriptive research was the preferred choice since it was meant to present a picture of the specific details of a quality audit services settings. The study is based on an interpretive approach employing survey questionnaires. The data collection was through Self-administered questionnaires and based on convenience sample selection 10 head of private audit firms, 10 auditor managers and 10 senior auditors totally 30 respondents selected. Totally 30 questionnaires were distributed and collected to 10 grades 'A' private audit firms and a response rate of 100%. The collected data fulfills construct validity (both convergent and discriminant validity) and reliability. The external auditors must remain independent and objective throughout the provision of their external audit services and when formulating their audit opinion. They need to be met prior to the appointment of professional financial advisors for non-audit services to safeguard the independence and objectivity of the external auditors. The provision of additional non-audit related services by the external auditor has the potential to impinge upon their independence and objectivity.*

*The survey result shows that as per majority of respondents' perceptions grades 'A' authorized private audit firms are not independent and objective during their audit work.*

**Key words:** External Auditor, External Audit Services, Quality External Audit Services, non-audit services.

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## **List of Acronyms**

AABE	Accounting and Auditing Board of Ethiopia
ACCA	Association of Chartered Certified Accountants
ADR	Alternative Dispute Resolution
AICPA	American Institute of Certified Public Accountant
AQF	Audit Quality Framework
ASA	Auditing Standards Authority
CGAA	Coordinating Group on Audit and Accounting
CPA	Certified Public Accountant
CAQ	Center for Audit Quality
CFOs	Chief Financial Officers
CLERP	Corporate Law Economic Reform Program
EACC	Ethiopian Arbitration and Conciliation Center
FRC	Financial Reporting Council
GAAS	Generally Accepted Auditing Standards
GAO	General Accounting Office
GNI	Gross National Income
IA	Internal Audit
IAASB	International Auditing and Assurance Standards Board
IAESB	International Accounting Education Standards Board

ICAA	Institute of Certified Accountants and Auditors
IFAC	International Federation of Accountants
IIA	Institute of Internal Auditors
IPPF	International Professional Practices Frame Work
ISA	International Standard of Audit
NAF	Non-audit Fees
NAS	Non Audit Service
NGO	Nongovernmental Organizations
OFAG	Office of the Federal Auditor General
PCAOB	Public Company Accounting Oversight Board
SEC	Security and Exchange Commission
SOX	Sarbanes Oxley Act
U.S.GAO	United States Government Accountability Office

# **CHAPTER ONE: Introduction**

## **1.1. Background of the Study**

Audit quality and perceptions of audit quality have been an issue recently with audit failures and corporate collapses and the ensuing investigations resulting in regulatory changes. For example, Corporate Law Economic Reform Program (CLERP) and the Australian Securities Exchange (2003) Principles of Good Corporate Governance in Australia, SOX in the USA and the UK Combined Code have all been implemented as a result of dissatisfaction with the effectiveness of corporate governance and the quality of the audit process and the roles of auditors and auditing.

The loss of Enron's audit firm, Andersens, left only four major firms dominating the global audit market and led to an overall loss of confidence in audit quality which affected the remaining firms and created concerns about competition and choice for major companies using audit services in this market (e.g. General Accounting Office (GAO), 2003; US Treasury, 2007; FRC, 2007; EC, 2008).

Ensuring that the remaining firms carried out quality audits in the future was seen as paramount to making sure that no other firms failed. Thus many changes to the regulatory regime for auditors were also made in other jurisdictions including the UK and the EU. Following a government review (CGAA, 2003), major changes in the UK included the restructuring of the Financial Reporting Council (FRC) which took responsibility for setting auditing standards, setting ethical standards for auditors and conducting independent inspections of public interest audits.

More recently, the Global Financial Crisis has resulted in policymakers undertaking investigations in an attempt to identify key drivers of audit quality. Examples include the establishment of the Advisory Committee on the Auditing Profession (2008) in the USA, the release of The Audit Quality Framework (FRC, 2008) in the UK, the release of Audit Quality in Australia – A Strategic Review (2010) in Australia and the European Commission (EC) (2010) Green Paper Audit Policy: Lessons from the Crisis.

Ethiopia is the second most populous Sub-Saharan African country with 90 million people (Nigeria has 140 million. people) and the seventh largest economy with US\$160 per capita gross national income (GNI). Ethiopia's economy is agricultural based. Agriculture contributes to 46 percent of GNI and more than 80 percent of total export earnings. The main export for the country is coffee, which earns around 50 percent of total export earnings. The current economic conditions in the country are encouraging with remarkable economic growth registered over the past decade. The real GDP growth averaged 10.9 percent in 2004 to 2014 according to World Bank official report ([www.worldbank.org/en](http://www.worldbank.org/en)).

The Government of Ethiopia is committed to increasing the role of private investment in the economy. This is articulated in the country's second poverty reduction strategy paper. Strong financial reporting infrastructure will support the Government's agenda by providing quality financial information, which will facilitate investment decisions and help to reduce risk of financial crises and corporate failures together with their associated negative economic impacts that have been witnessed in many industrial and developing countries. This remarkable economic growth was the output of Ethiopia's financial service sectors, the corporate sectors and other significant sectors in the economy of Ethiopia include state-owned enterprises and nongovernmental organizations (NGO). All those sectors look for quality financial information, which will facilitate investment decisions and help to reduce risk of financial crises and corporate failures (World Bank, (2007). Therefore audit quality helps to enhance quality financial information.

There are some notable efforts in Ethiopia aimed at improving the quality of financial information. One is Office of the Federal Auditor General (OFAG) which was established by Proclamation No.669/2010 by which it was set up to make efforts, in co-operation with concerned organs, to promote and strengthen accounting and auditing professions before the Accounting and Auditing Board of Ethiopia (AABE) was established by council of ministers regulation No. 332/2014 on 14<sup>th</sup> January 2015. OFAG in addition to auditing and inspecting the accounts of ministries and other agencies of the Federal Government, regulates the accounting profession include licensing of all auditors in the country, issuing a Code of Ethics for Professional Accountants, and taking disciplinary measures on proven acts of misconduct by professional accountants and reviewing the work of private auditor (Proclamation No. 669/2010)

but did not regulate external auditors' profession performance as expected and assessment of external auditor services quality were not conducted in order to check whether the private audit firms providing quality audit services for their clients in accordance with international quality control standards requirements. There are no quality assurance programs for auditors in Ethiopia (World Bank, (2007)). A quality assurance program checks the auditors' work at both partner and firm level, and ensures that auditors conduct their duties with outmost professional diligence. The program also identifies areas that become a source of designing training programs to improve the capacity of auditors. Establishing a country-level quality assurance program is an international good practice. Under this quality assurance program, the professional accountancy body develops quality control standards and relevant guidance, requiring audit firms to establish the quality control policies and procedures necessary to provide reasonable assurance of conforming to professional standards in performing services. To ensure that audit firms have effective quality control arrangements, a mechanism of independent review must be in place. Such a review mechanism does not exist in Ethiopia yet. On the other hand Accounting and Auditing Board of Ethiopia (AABE) was established on 14<sup>th</sup> January 2015. Therefore a lot of things have been expected from the AABE in order to promote audit and audit quality in the country. Many Ethiopian investors did not know the relevance of audit for their businesses rather they perceive audit for taxation purposes (World Bank, (2007)). In view of the fact that the AABE expected to resolve any misunderstandings exist in the country and have to promote accounting and auditing professions to citizens. The objective of AABE prescribed on Regulation No. 332/2014 is expected to: a) promote high quality reporting of financial and related information by reporting entities; b) promote the highest professional standards among auditors and accountants; c) promote the quality of accounting and auditing services; d) ensuring that the accounting profession is used in the public interest; and e) protect the professional independence of accountants and auditors.

In Ethiopia an authorized auditor or audit firm means an organization or individual authorized to provide auditing service in Ethiopia by the Office of the Federal Auditor General in accordance with the Proclamation No. 669/2010 and regulation No. 4/2010 before the Accounting and Auditing Board of Ethiopia was established. There are 88 authorized auditors or Private Audit Firms authorized to provide auditing service in Ethiopia (AABE, (2015)) and they are categorized

in to three grades. These are Grades “A”, Grades “B” and Grades “C” authorized auditors or audit firms. The grading was given for those authorized auditors based on established criteria mainly staff profile has 60% and office profile has 40%. These are Grades “A” 10 firms, Grades “B” 15 firms and Grades “C” 63 firms totally 88 private audit firms. This study mainly gives emphasis for Grades ‘A’ private authorized auditors or audit Firms.

External auditors play a critical role in validating company financial information. Potential lenders and investors often require externally audited financial statements before doing business with a company. The objectives of the auditor and the audit function are to assist users in determining the quality of information being received. The audit function ought to add to the credibility of information because the user of the information needs to have confidence in it when making decisions. An external auditors performs an audit, in accordance with specific laws or rules, of the financial statements of a company, government entity, other legal entity, or organization, and is independent of the entity being audited. Users of these entities' financial information, such as investors, government agencies, and the general public, rely on the external auditor to present an unbiased, independent and quality audit report (IFAC, (2004).

In the context of the above discussions, the purpose of this study is to assess the quality of external audit service in grades ‘A’ private audit firms based on guide to audit quality and the external auditor KPMG, Center for audit quality (CAQ) guide to PCAOB Inspections, Audit Quality Practice aid for audit committees from Financial Reporting Council (FRC) and internationally accepted external auditor assessment tools and investigate the quality of service and sufficiency of resources, exercises of professional skepticism, independence and objectivity and external auditors communications with the Board/Audit Committee.

### **1.1. Statement of the Problem**

The issue of audit quality has always been a key consideration for auditors. Performing a high quality audit means that audit risk is reduced and the audit firm is less likely to issue an inappropriate audit opinion. However, periodic reviews by regulatory authorities including the Securities and Exchange Commission (SEC) and the Public Company Accounting Oversight Board (PCAOB) the on the work performed by audit firms often conclude that audits performed are not of high quality, despite this being in the best interest of the audit firm

(www.TheCAQ.org). The objective of the study to provide some insight into why audit firms sometimes compromise audit quality, how this happens, and the implications of compromising on audit quality for the profession.

Therefore the paper was assessing the quality of external audit service in private audit firms. More specifically, this study addresses the following research questions:

- a) Does the audit firm provide quality of audit service and sufficient resources are available for auditors?
- b) Does the audit firm exercises professional skepticism?
- c) Do the auditors approach their work with independence and objectivity?
- d) Are the external auditors' communications with the Board/Audit Committee (written and oral) clear, concise, open and frank, particularly in areas of significant judgments and estimates or when initial views differ from management?

## **1.2. The Research Objectives**

The general objective of the study is assessing the quality external audit service in private audit firms. To this end, the specific objectives are:

- a) To examine audit firms' quality of Services and sufficiency of Resources provided.
- b) To assess the audit firm professional skepticism exercises.
- c) To assess the auditors' independence and objectivity.
- d) To evaluate the external auditors communications with the Board/Audit Committee.

## **1.3. Significance of the Study**

The recent financial crisis not only revealed weaknesses in risk management, control and governance processes at business sectors, but also highlighted the need to improve the quality of external audit services of the business sectors economically. External auditors can play an important role in contributing to financial stability when they deliver quality audits which foster market confidence in business sectors' financial statements. Quality audits are also a valuable input in the supervisory process. Understanding the relationships between prudential supervisors and external auditors, as well between prudential supervisors and audit oversight bodies.

Therefore, the findings of this study will make an important contribution to the public bodies and academicians about the quality external audit services. Further, this study is initiated to generate and advance the understanding of the audit quality. The findings of this research will provide multipurpose information to investors, creditors, Board of directors, top management, academicians and development policy makers as well. The results of this study should also make an important contribution towards building good corporate governance and establishing transparent audit fee paying system, which will in turn improve transparency and accountability for the investors, creditors, customers, government, employees and public at large.

#### **1.4. Limitation of the Study**

Audit quality depends not only on the performance of the audit firm but also on the attitudes and performance of management and the Board/ Audit Committee as they work with the auditors. Because of the scarcity of time and cost effective; the paper gives emphasis on audit quality from the perspective of the performance of audit firms.

This may in turn limit the ability to make broader generalizations from our results. Furthermore, in spite of the researcher's efforts to gather the necessary information as objectively as possible, the analysis of the study is based as per the respondents' perception, which may not be free from individual perception and bias.

This chapter gives brief background information on the study. The above discussions are arranged in five sections. The first section sets out background of the study. The second section provides statement of the problem. The third section presents research objective and research questions. Significance of the study is presented in section four. Limitations of the study are presented in section five. The remaining chapters are arranged as follows: Literature reviews presented in chapter two, research methodology, results and discussions and conclusions and recommendations are presented in chapter three, chapter four and chapter five respectively.

## **Chapter Two: Review of Literature**

### **2.1. Introduction**

The chapter begins with a discussion of concepts, definitions and practices of audit services and follows its discussion with concepts, definitions, and components of quality external audit services. The literature discusses works which have been forwarded by previous researchers with related to external auditors, services provided by external auditors, audit quality and assessment of quality external audit services.

### **2.2. External Auditors**

Information is power and has a considerable effect on society, the behavior and perception of human beings and their decision-making at different levels. History is full of cases where the timely use of information has led to military, diplomatic or business success. The effective use of information is a key to business success. The difficulty is that the nature of business and the role of information within it are changing. Financial statements and reporting data play two distinct, but related, informational roles. The first is to aid decision-makers. The second role is to facilitate contracting between parties, involving management and investors, by having the payment under contract defined partly in terms of financial reporting data disclosed by corporations. However, accounting information and financial reporting hold little value for the various parties if they cannot rely on the accuracy of the information conveyed. Indeed, this is the primary quality of such information. The objectives of the auditor and the audit function are to assist users in determining the quality of information being received. The audit function ought to add to the credibility of information because the user of the information needs to have confidence in it when making decisions. The auditor's role and the confidence associated with his/her presence allow the potential value of the accounting information to be realized. Put briefly, what the audit function adds to the communication process is related to the quality of information being transmitted and to the user's need or desire to assess the quality of information before making use of it. Therefore, the auditor plays an important role with respect to the problem of the credibility gap caused by conflicts of interest between the various parties. External auditors also have a responsibility to society and more particularly to the capital market,

because investors, lenders and other users of information do not have direct access to corporate reporting (Arruñada, B (2000)).

The content of financial statements is significantly affected by factors relating to supply and demand. External auditors and audit firms are the principal actors in an industry whose factors of production include financial statements, accounting and financial information and other types of data, and whose product is to verify the accuracy of the information provided by corporations. The role of the auditor in this process is essential: first in supplying the audited financial statement information and second as an economic agent giving assurance about this information to the parties demanding the financial statement (Arruñada, B (2000)).

From an agency perspective, management reports are subject to monitoring or certification by an independent auditor. The presence of an external auditor is justified because investors are willing to obtain additional information so as to eliminate the superior information position of management. It can be seen as hiring an independent monitor to come into a company to inspect the information system and to provide certification that no material information has been withheld by management in its reporting to shareholders and the role of auditor as an intermediary agent in the business environment. An external auditor performs an audit, in accordance with specific laws or rules, of the financial statements of a company, government entity, other legal entity, or organization, and is independent of the entity being audited. Users of these entities' financial information, such as investors, government agencies, and the general public, rely on the external auditor to present an unbiased and independent audit report (IFAC (2004)).

The manner of appointment, the qualifications, and the format of reporting by an external auditor are defined by statute, which varies according to jurisdiction. External auditors must be members of one of the recognized professional accountancy bodies. External auditors normally address their reports to the shareholders of a corporation. In the United States, certified public accountants are the only authorized non-governmental external auditors who may perform audits and attestations on an entity's financial statements and provide reports on such audits for public review. In the UK, Canada and other Common wealth nations Chartered Accountants and Certified General Accountants have served in that role.

For public companies listed on stock exchanges in the United States, the Sarbanes-Oxley Act (SOX) has imposed stringent requirements on external auditors in their evaluation of internal controls and financial reporting. In many countries external auditors of nationalized commercial entities are appointed by an independent government body such as the Comptroller and Auditor General. Securities and Exchange Commissions may also impose specific requirements and roles on external auditors, including strict rules to establish independence (SOX Act (2002)).

In some countries, audit firms may be organized as Limited Liability Companies (LLCs) or corporate entities. The organization of audit firms has been a subject of debate in recent years on account of liability issues. For example, there are rules in EU member states that more than 75% of the members of an audit firm must be qualified auditors (Hutcheson, D. (2003)). In India, audit firms can only be partnerships of qualified members of The Institute of Chartered Accountants of India.

In the USA, the external auditor also performs reviews of financial statements and compilation. In review, auditors are generally required to tick and tie numbers to general ledger and make inquiries of management. In compilation, auditors are required to take a look at financial statement to make sure they are free of obvious misstatements and errors. An external auditor may perform a full-scope financial statement audit, a balance-sheet-only audit, an attestation of internal controls over financial reporting, or other agreed-upon external audit procedures (Public Oversight Board, 2000).

External auditors also undertake management consulting assignments. Under statute, an external auditor can be prohibited from providing certain services to the entity they audit. This is primarily to ensure that conflicts of interest do not arise. The independence of external auditors is crucial to a correct and thorough appraisal of an entity's financial controls and statements. Any relationship between the external auditors and the entity, other than retention for the audit itself, must be disclosed in the external auditor's reports CGAA (2003). These rules also prohibit the auditor from owning a stake in public clients and severely limit the types of non-audit services they can provide.

In Ethiopia, the external auditors /private audit firms/ also audit, in accordance with international financial reporting standards or international accounting standards specific laws or rules, of the financial statements of a company, and are independent of the entity being audited (AABE,

2015). The office of the Federal Auditor General of Ethiopia has been empowered under the office of the Federal Auditor General Establishment proclamation No. 669/2010 to issue and renew certificates of professional competence to private auditors as well as to supervise the proper fulfillment of the activities of private auditors and to suspend and cancel their certificates of professional competence where they undertake their activities inappropriately until 14<sup>th</sup> January 2015 the date of The Accounting and Auditing Board of Ethiopia (AABE) was established by council of Ministers Regulation No. 332/2014. But OFAG were not performed as expected on the quality of external audit services and to check whether the work of private external auditors are made in line with internationally accepted quality control procedure or not. Reviewing the work of private external auditors was not done by OFAG as expected. OFAG now handover the authority of regulating the private auditors to AABE and AABE expected to be promote accounting and auditing professions to citizens.

The external auditor performs the audit in accordance with commercial code of Ethiopia and the code describes what types of person elected as an auditor, duties, responsibilities, professional secrecy and Powers of the external auditors and also describes how they audit accounts of a holding company. For details commercial code Art. No. 374: *the auditors shall have the following duties:* a) to audit the books and securities of the company; b) to verify the Correctness and accuracy of the inventories, balance sheets and profit and loss accounts; c) to certify that the report of the board of directors reflects the correct state of the company's affairs; and d) to carry out such special duties as may be assigned to them; commercial code Art. No. 370, a) *The following persons may not be elected as auditors:* founders, contributors in kind, beneficiaries holding special benefits, directors of the company or of one of its subsidiaries or of its Holdings Company; spouses or relatives by consanguinity or affinity to the fourth degree inclusive, of the persons mentioned in sub-art. (1) (a); persons who receive from the persons mentioned in sub-art. (1) (a) a salary or periodical remuneration in connection with duties other than those of an auditor; b) Auditors may not be appointed directors or managers of the company which they audit, nor of one of its subsidiaries or its holding company within three years from the date of the termination of their functions; and c) Reports submitted by an auditor and adopted by the annual general meeting shall not, save in the case of fraud, be invalid merely by reason of the fact that the provisions of this Article have not been observed. Commercial code Art. No. 373, -

*professional secrecy*: Auditors shall be liable to the penalties prescribed in AN. 407 of the Penal Code for breaches of professional secrecy and Art. 378. – *Powers*: a) The auditors may at any time make on the spot such audits and checks as they think necessary and may call for any information, agreements, books, accounts, minute books and such other documents as may be required for the proper execution of their duties; and b) Auditors shall be present at shareholders' meetings and at the annual general meeting. Art. 379. - *Audit of the accounts of a holding company*: Auditors shall exercise their powers under Art.378 in respect of the accounts of holding companies under Art. No. 451, (Commercial Code, (1960).

### **2.2.1. External Auditors' Liability**

Auditors may be liable to third parties who are damaged by making decisions based on information in audited reports. This risk of auditors' liability to third parties is limited by the doctrine of privity. An investor or creditor, for instance, can not generally sue an auditor for giving a favorable opinion, even if that opinion was knowingly given in error. The extent of liability to third parties is established (in general) by three accepted standards: *Ultramares*, *restatement*, and *foreseeability*.

Under the *Ultramares doctrine*, auditors are only liable to third parties who are specifically named. The *Restatement Standard* opens up their liability to named "classes" of individuals. The *foreseeability standard* puts accountants at the most risk of liability, by allowing anyone who might be reasonably foreseen to rely on an auditor's reports to sue for damages sustained by relying on material information.

While the *Ultramares doctrine* is the majority rule, (to the relief of many new and budding accountants pursuing an auditing career); the *restatement standard* is preferred in several states and is growing in popularity. The *foreseeability standard* will not likely be widely adopted anytime soon because the cost (time and financial) of litigation would be enormous.

Chief Financial Officers (CFOs), company accountants, and other employees are not afforded the same luxuries of the doctrine of privity. Their material actions and statements open them (and their companies) up to liability from third parties damaged by relying on these statements.

In Ethiopia external auditor liability mentioned in commercial code of Ethiopia Art. No. 380: a) Auditors shall be civilly liable to the company and third parties for any fault in the exercise of

their duties which occasioned loss; and b) An auditor who knowingly gives or confirms an untrue report concerning the position of a company or fails to inform the public prosecutor of an offence which he knows to have been committed shall be punished under Art. No. 438 or Art. No. 664 of the Penal Code, as the case may be (commercial code, (1960).

### **2.2.2. The Litigation Crisis**

One of the biggest challenges facing the accounting profession is the threat of litigation due to audit failure. Auditing is, and has always been, a business in which the auditor must assume the risk of an uncertain rate of return from an engagement. There is always a risk of litigation because financial statements can contain undetected material misstatements that may be revealed after an audit report has been issued. Such revelations may lead to accusations of negligence against the auditor, resulting in costly litigation and/or a loss of auditor reputation. In this case, the auditor or the audit firm is held liable for the investor's loss that arises from investment outcome risk (Security Litigation Report, (2007).

With the increasing litigation exposure of auditors in recent years, much has been written about a crisis facing accounting firms. An alleged consequence of the high rate of litigation against auditors is the possible failure of one or more firms. It is reasonable to assume that the risks associated with litigation and loss of reputation have serious economic consequences and affect auditors' judgments. The increasing number of lawsuits filed against auditors may be related to the growing expectations of users of corporate financial reporting and the pressure exercised by the regulators ([www.pcaobus.org/international/inspections](http://www.pcaobus.org/international/inspections)).

### **2.2.3. Arbitrations or Mediations of Auditing Professions**

Alternative Dispute Resolution (ADR) clauses providing for mediation and/ or arbitration of disputes are not more widely used by the accounting profession in engagement letters with clients' especially in Ethiopia but in US widely used. A review of decisions by numerous state and federal courts across the United States, addressing ADR clauses yields the following conclusions:

- 1) Certain accounting firms, including at least on Big 4 firm, regularly include mediation/arbitration clauses in their engagement letters for audit and accounting services,

- 2) The courts have generally enforced ADR provisions in accounting engagement letters consistent with the strong federal policy favoring arbitration,
- 3) Judicial treatment of ADR clauses in the context of audit, tax and other accounting engagements appears to be no different than for other commercial transactions,
- 4) In those instances in which arbitration clauses have not been enforced, the reasons were not peculiar to audit and accounting engagements but rather the grounds for non-enforcement were those applicable to arbitration agreements generally, such as limitations on scope, lack of enforceability as against non-signatories, or waiver of right to arbitrate.

In short, reported decisions suggest nothing unique about audit or accounting services which would render ADR clauses inappropriate for the resolution of disputes arising in connection with those engagements (ADR (2014)).

To the contrary, given the often technical nature of disputes arising out of audit and accounting engagements, arbitration is particularly well-suited for the resolution of disputes between accounting firms and their clients. As one state appellate court observed in enforcing an arbitration clause in an accounting malpractice action:

*Neither can we accept appellants suggestion that a panel of arbitrators would be ill-equipped to deal with the issues, which implies that the trial court or a jury would do a better job at evaluating the evidence and applicable law. To the contrary, it would appear that in matters of complex litigation involving securities and investments, a panel of arbitrators versed in the issues common to that industry is better suited to review the litigation than a general population, which is, more likely than not, untrained in the intricacies of the financial markets, sophisticated corporate accounting and their governing regulations.*

#### *The ACCA Arbitration Scheme Rules*

The ACCA Arbitration Scheme is an independent arbitration service provided by the Chartered Institute of Arbitrators (the administrator), for members of the Association of Chartered Certified Accountants (ACCA) (including firms regulated by ACCA) in dispute with clients or any other parties.

### *Ethiopian Arbitration/ Mediation*

Though modern arbitration legislation refers to arbitration agreements generally, some national arbitration laws still distinguish between two forms of arbitration agreements, i.e., arbitral submission and arbitration clause. The dichotomy between arbitral submission and an arbitration clause is known in Ethiopia as well. While the former is understood as relating to existing disputes, the latter contemplates future disputes that might arise in the course of the performance of contractual obligations.

Arbitration agreements usually deal with a range of issues including types of arbitration, seat of arbitration, choice of law, composition of arbitral tribunal, language of the arbitration, scope of the arbitration agreement, and the like. Also, arbitration agreements are normally subjected to statutes that prescribe substantive and formal requirements. Compliance with the statutory requirements is crucial, for the validity of the arbitration agreement may depend on it. Hence, due attention must be given to statutory requirements while drafting arbitration agreements.

Ethiopian law requires the fulfillment of certain substantive and formal requirements. The general substantive requirements relating to consent, capacity, and offer and acceptance are obviously relevant to arbitration agreements. Apart from these substantive requirements, the test of “arbitrability” and the “capacity to arbitrate” need to be satisfied.

Formal requirements in arbitration agreements usually relate to the question of whether the agreement is oral or written. The universal rule requires commercial arbitration agreements and commercial transactions to be in writing. Though oral arbitration agreements are rare in international commercial transactions, some jurisdictions including Ethiopia<sup>54</sup> are ready to recognize them (Hailegabriel G. Feyissa, 2010).

According to Art 3326 (2) of the Civil Code of Ethiopia, arbitration agreements are required to be drawn in the form required by the law for disposing of the right to which the arbitration agreement relates. Applying the theory of Art 3326 (2) of the Civil Code, some arbitration agreements must, under the pain of nullity, be (1) written, (2) signed by the parties, and (3) attested by capable witnesses. For instance, an arbitration agreement with a certain administrative body need to be (1) in writing, (2) attested at least by two witnesses, and (3) registered with a court or notary. Understandably, such formality requirements are not good incentives to arbitral settlement of disputes involving administrative bodies (Civil Code, 1960).

### *Ethiopian Arbitration and Conciliation Center (EACC)*

Ethiopian Arbitration and Conciliation Center (EACC) were established by a group of Ethiopian lawyers, with the aim of providing an alternative mechanism for private dispute resolution. EACC was registered at the Ministry of Justice of the FDRE, as a non-profit juridical entity, according to the 1960 Civil Code of Ethiopia and Legal Notice No. 321 of 1966. *The Center provides arbitration and mediation services on commercial, labor, construction and family disputes.* It is an independent body and facilitates the resolution of disputes in a non-adversarial atmosphere, by providing a service that is less costly and time saving than court litigation. Currently, the program is implemented in Addis Ababa with future plans to expand to the regions, in order to make the service accessible nationwide. (Currently one of the regional offices is on the way to be established in Arba Minch, in SNNP) The Center is governed by a board of directors who meet regularly (EACC, 2012).

### **2.3. Services provided by External Auditor**

Internationally as well as in the case of Ethiopian point of view Professional services can be broken down into three main categories (Commonwealth of Australia, 2002, Commercial Code 1960, Financial Reporting Proclamation No. 847/2014): These Are:

1. Audit service
2. Audit-related service
3. Non-audit service – (Allowed, Restricted and Prohibited)

#### **2.3.1. Audit Services**

Audit services are part of the annual appointment process. The External Auditor is appointed to perform audit services as listed below and does not need to go through a preapproval process for each engagement.

- Issuing the audit opinion for their client reporting purposes and on the client's financial statements. This service includes the review of internal accounting and financial reporting controls.
- Issuing the audit opinion on the statutory financial statements of the holding company and of its subsidiaries, where legally required.

- Issuing review opinions or reports of factual findings on interim financial statements. As part of the annual appointment process, the scoping of the (statutory) audits has been approved. Any additional requirements for statutory audits will be submitted to the CFO or Global Head of Internal Audit and will be assessed and approved at that level and no preapproval by the Audit Committee is required for these engagements.

### **2.3.2. Audit related services**

Audit related services are assurance and related services that are reasonably related to the performance of audit and assurance services or other work traditionally provided to their clients by the External Auditor in its role as external auditor. These services typically result in a certification or specific opinion on an investigation (IFAC, 2005).

Audit related services include:

- Opinions / audit reports on other information provided by the company upon request from a third party (e.g. a prospectus, comfort letters, royalty audits, or a report on employee benefit plans),
- Opening balance sheet audits of acquisitions,
- Closing balance sheet audits of disposals,
- Advice on accounting policies,
- Sustainability reviews and audits,
- Special purpose IT audits or IT auditors' review of set up of IT systems,
- Internal audit services but subject to restrictions as mentioned in prohibited services below.

All engagements for audit related services to be provided by the External Auditor require pre-approval by the Audit Committee.

### **2.3.3. Non-audit services**

'Non-audit services' comprise any engagement in which an audit firm provides professional services to: a) An audited entity; b) An audited entity's affiliates; or c) Another entity in respect of the audited entity; other than the audit of financial statements of the audited entity.

There may be circumstances where the audit firm is engaged to provide a non-audit service and where that engagement and its scope are determined by an entity which is not audited by the firm. However, it might be contemplated that an audited entity may gain some benefit from that engagement. In these circumstances, whilst there may be no threat to the audit firm's objectivity and independence at the time of appointment, the audit firm considers how the engagement may be expected to develop, whether there are any threats that the audit firm may be subject to if additional relevant parties which are audited entities are identified, and whether any safeguards need to be put in place (APB, 2011).

Non-audit services are classified in the following categories:

- 1) Non-audit services – Allowed
- 2) Non-audit services – Restricted
- 3) Non-audit services – Prohibited

Examples of non-audit services per category are listed below. These examples are non exhaustive and serve as a general guidance for a further case-by-case assessment of proposed engagements for non-audit services APB (2011).

#### **2.3.3.1. Non-audit service – Allowed**

The External Auditor is permitted to perform certain non-audit services. As a general rule, these services are only permitted provided that the External Auditor is not actively engaged in making management decisions or that could result in a situation whereby the External Auditor will be required to audit their own work.

#### **Permitted non-audit services include:**

- Tax compliance work.
- Tax consulting services including tax planning but excluding:
  - Representation in (tax) courts;
  - Recommending aggressive tax position transactions;
  - Tax services to certain persons serving in financial oversight roles.
- Risk management and internal control projects.

All engagements for “Non-audit services – Allowed” to be provided by the External Auditor require pre-approval by the Audit Committee.

### **2.3.3.2. Non-audit services – Restricted**

Certain non-audit services are restricted but may be acceptable when certain conditions are met. Services in this category are:

- Financial information systems design and implementation.
- Actuarial services.
- Interim management services (loan staff).
- Internal audit outsourcing services that relate to internal accounting controls, financial systems or financial statements.
- Legal services.
- Due diligence services.

All engagements for “Non-audit services – Restricted” to be provided by the External Auditor require pre-approval by the Audit Committee.

### **2.3.3.3. Non-audit services – Prohibited**

The External Auditor is forbidden from providing to their client the following categories of non-audit services at any point during the audit and professional engagement period:

- Bookkeeping or other services related the accounting records of financial statements.
- Payroll services.
- Appraisal or valuation services, fairness opinions, or contribution-in-kind reports, with two exceptions:
  - Unless performed in the context of planning and implementation of tax planning strategy for tax compliance services;
  - Unless performed solely for non-financial purposes where the results of the valuation do not affect the financial statements and the resulting report will not be included in any public filing or record.
- All (interim) management functions whereby the External Auditor takes management decisions or is actively engaged in decision making processes (i.e. acting temporarily or

permanently as a director, officer, or employee or performing any decision making, supervisory or ongoing monitoring functions).

- Executive recruiting and resourcing activities.
- Forensic audits.
- Treasury advisory roles.
- Corporate finance advisory.
- Consultancy engagements.
- Broker or dealer, investment adviser, or investment banking services;
- Legal services and expert services unrelated to the audit; and
- Any other service that the PCAOB determines, by regulation, is impermissible.

Audit committees must pre-approve the provision of all other non-audit services by the auditor (Financial Policy 13).

## **2.4. Audit Quality**

There is no agreed definition of ‘audit quality’ but it involves a wide range of inter related factors such as the legal framework relating to audit regulation (including the company auditor registration system, the auditor independence regime in the Corporations Act 2001 (Corporations Act) and the accounting and auditing standards), the ethical standards applying to the members of the professional accounting bodies, the professional qualities and skills of auditors and their staff and the role and activities of the Australian Securities and Investments Commission (ASIC), the independent audit regulator and other bodies involved in the audit review process. There are also other drivers of audit quality that relate to the practices and processes adopted within audit firms, such as the culture within the audit firm and the quality of the firm’s audit process, including the experience and technical expertise of the audit team and the audit methodology adopted by the firm.

In the agency context, some researchers have posited that auditors specialize in the level of ‘audit quality’ provided to clients. As stated by Watts and Zimmerman (1980) and DeAngelo (1981a and 1981b) *audit quality* is defined as the probability that the auditor will both detect and report material breaches in the accounting system. Quality may be the attribute of the audit service that

helps alleviate agency conflicts between the manager and equity holders. The quality levels demanded by clients are based upon how closely management's incentives align with those of the company's owners. DeAngelo's (1981) seminal work considers the quality of an audit to be dependent on two factors; First, the auditor's ability to examine the accounts and identify errors or anomalies, their technical competence, and second, their objectivity and their independence. Auditing quality is the combined probability that the auditor will detect and report on defects in accounts (Watts & Zimmerman, 1986 p.8). DeAngelo's definition of audit quality is useful for analysis as competence and independence are quite distinct constructs. However, these two dimensions are not completely separate: for example, the audit firm could decide not to make an effort to uncover problems (competence) which they have no desire to report on (independence). Technical competence is relatively easy to conceptualize. However, independence is more problematic, being "difficult to prove and easy to challenge" (Mednick, 1990). The concept of independence described by DeAngelo (an auditor's willingness to report on defects in audited financial statements) can be thought of as independence in fact, which in itself is not directly observable - "the state of mind which has regard to all considerations relevant to the task in hand but no other" (Federation of European Accounting Experts, (FEAE, 1996). Independence in appearance, by contrast is defined by signals or other directly observable indications. Regulators pay considerable importance to this dual definition of independence. When independence is mentioned in laws or professional rules, it is 'independence in appearance' that is being referred to.

Auditing can be thought of as an economic exchange between a supplier, the auditor, and direct users, the audit client who purchases the services, and indirect users, financial statement users, for whom the audited accounts are destined. In any economic exchange, sufficient resources need to be employed to prevent the parties from maximizing their own interests at the expense of the other parties to the exchange. This is achieved essentially by a market mechanism. If the auditor is deemed not to have complied with the contract of the exchange by behaving opportunistically, they will attract criticism from others in the marketplace. Put more simply, the auditor will suffer damage to their commercial reputation. An auditor with a good commercial reputation can charge higher fees than an auditor who contracts without such a reputation. This additional remuneration available is termed by economists as a 'quasi-rent'. A quasi-rent is

defined as “the difference between the remuneration for any productive resource in its current use and the maximum remuneration which would be received for its alternative use” (Arruñada, 1999).

Audit quality is protected by both explicit and implicit contracting safeguards. In an explicit contract, if the auditor has undertaken a defective audit, this may result in litigation against the auditor. If the work is found defective by third parties, then the auditor may be required to pay compensation to those injured parties.

The first formal attempt to develop an audit quality framework was undertaken by the U.K.’s Financial Reporting Council (FRC) in 2006.<sup>8</sup> After extensive consultation, the FRC (2008) identified five drivers of audit quality: (1) the culture within an audit firm; (2) the skills and personal qualities of audit partners and staff; (3) the effectiveness of the audit process; (4) the reliability and usefulness of audit reporting; and (5) factors outside the control of auditors affecting audit quality. For each driver, the FRC identified several potential indicators of audit quality. For example, some of the indicators of the culture of an audit firm include: creating an environment where achieving high quality is valued, nurtured, and rewarded; ensuring partners and staff have sufficient time and resources to deal with difficult issues; and ensuring robust systems for client acceptance and continuation. Other examples pertain to the effectiveness of the audit process in a firm: the design of audit methodology and tools, the availability of technical support, and the enforcement of ethical and independence standards.

Francis (2011) proposed a framework for understanding and researching audit quality. He notes that audit quality is a complex concept and there are gradations of audit quality across a continuum. Based on a structural view of the audit environment as reflected through different paradigms of archival research, Francis (2011) argues that audit quality is influenced by six levels of analysis that range from a granular view of the audit process to a very broad view of the outcomes of the audit, including (1) audit inputs, (2) audit processes, (3) accounting firms, (4) audit industry and audit markets, (5) institutions, and (6) economic consequences of audit outcomes. The different levels of analysis illustrate how audit quality reflects the cascading of conditions at different levels of the overall system.

The various frameworks for audit quality highlight that the evaluation of audit quality is a multi-dimensional challenge from both a theoretical and practical perspective. If one crosses Francis' levels of audit quality with the theoretical attributes of an audit mentioned earlier, the complexity of the problem becomes apparent. For each level in the Francis framework, the issues of incentives, outcomes, uniqueness, process and judgment manifest in different ways. For example, at each level, different participants; auditors, teams, firms and regulators may have different and potentially conflicting incentives. Further, the nature of the process at each level varies, while the outcome of each level inherently feeds into the next higher level of analysis, i.e., individual auditor decisions aggregate into a process, processes aggregate into an engagement, engagements aggregate into a firm, etc. Depending upon the level at which an observer sits the nature of necessary judgment will vary. Given this obvious complexity combined with the difficulty of defining audit quality from various viewpoints, we believe a "balanced scorecard" for auditing might provide a way in which to simultaneously address different stakeholder viewpoints. A scorecard allows stakeholders to focus on the indicators of audit quality that are most relevant rather than imposing a fixed structure for a "generalist" stakeholder.

## **2.5. Assessment of Quality External Audit Services**

The regulatory bodies have a role to play in promoting audit quality as this will in turn increase public confidence in the audit process and in financial reporting. It is in the best interests of audit firms to conduct a high quality audit. So, it may be surprising to find that when inspections are carried out on the conduct of audits, the regulatory bodies come across many instances where audit quality is lacking.

Audit firms are faced with great pressures which may lead to them compromising audit quality. Pressures can be in the form of *tight deadlines and restrictions on audit fees, issues relating to competence, ethical dilemmas, and the extent of judgment that is required when auditing certain balances and transactions*. Some examples are given below to illustrate the effect of these pressures on audit quality.

*Tight deadlines and restrictions on audit fees* – the FRC comments in its 2011 – 2012 Annual Report on Audit Quality Inspections that a company's audit should represent value for money

Nevertheless, substantial fee reductions may lead the auditor to reduce valuable audit work and therefore compromise audit quality.’ Fee pressures are a commercial reality and audit firms will react to fee pressure by seeking efficiencies in the audit. This can manifest in many ways, for example, reducing sample sizes, and increasing materiality levels especially in group situations. A particular way to make the audit more efficient is to ‘offshore’ certain audit procedures in an arrangement whereby some of the audit work is performed by audit personnel who are not ‘full’ members of the audit team, they may be located in a foreign country where the labor costs are lower. This practice raises audit quality issues in that these personnel may not have a good knowledge of the audit client and the quality of the audit evidence produced may be questionable.

*Competence* – if auditors are not technically competent to perform audit work there is a clear impact on the quality of work performed. For example, the IAASB comments in its 2015–16 Work Plan that audit inspections have found instances where the person selected to perform engagement quality control reviews was not competent to do so. Given that engagement quality reviews are conducted for high risk audit engagements using inexperienced auditors to perform such reviews can create a potentially serious hazard for the audit firm in that it is much more likely that an inappropriate opinion could be issued.

*Ethical dilemmas* – a common example is where the audit firm provides non-audit services to the audited entity. Audit firms should be familiar with the concept that providing non-audit services creates a threat to objectivity, in particular a self-review threat, and audit firms also should be accustomed to assessing the significance of the risk and responding with the use of appropriate safeguards or by not providing the non-audit service. However there may be circumstances where the threat is overlooked, so compromising audit quality. For example, if an audited entity changes status and becomes listed (a public interest entity) then while it may previously have been acceptable to provide a non-audit service with the appropriate safeguards, the provision of the non-audit service may not be acceptable given the new status of the audited entity. This issue was picked up by the FRC in its 2014 round of audit quality inspections.

*Extensive use of judgment* – this is very much linked to professional skepticism. Audit inspectors often comment that the audit of judgmental balances such as fair values and impairment is lacking in quality. The FRC’s 2014 Annual Report on Audit Quality Inspections states that

‘Limited evidence that audit firms have robustly challenged management particularly in respect of the appropriateness of key assumptions and other judgments was a key concern. Firms, with the assistance of audit committees, should ensure they appropriately challenge management.’ The report comments that audit firms often fail to challenge the feasibility of business plans prepared by management, as well as assumptions relating to fair value, impairment and the valuation of tangible and intangible assets (FRC, (2014).

It is advisable that companies Boards/Audit Committees to actively pursue the concept of assessing the quality of the external auditor. Steps taken to enhance external auditor quality can only improve the profession as a whole. Assessment of quality external audit services in private audit firm’s will conduct base on internationally accepted external auditor assessment tools under the following four main parameters: a) *Quality of Service and Sufficiency of Resources*; b) *Exercises Professional Skepticism*; c) *Independence and Objectivity*; and d) *Communications with the Board/Audit Committee*.

### **2.5.1. Quality of Service and Sufficiency of Resources;**

Interest in evaluating service quality has been motivated by recognition of the significance of service quality in business success. High levels of service are seen as a means for an organization or firm to achieve competitive advantage by positioning itself more effectively in the market. Achieving sustainable competitive advantage lies at the core of strategy development (Lynch, 2000). Sustainable competitive advantage is as important for accounting firms as for corporations, as they need to compete to attract and retain clients. Research demonstrates that high levels of customer service can lead to customer loyalty, attraction of new customers, positive word-of-mouth, employee satisfaction and commitment, enhanced corporate image, reduced costs and increased business performance (Berry, Bennett, & Brown, 1989). Consequently, a commitment to service quality has clear benefits for accounting firms.

Firms need to attract high quality individuals with the necessary technical and interpersonal skills. The study has emphasized that if firms are to provide audit of the requisite quality there is a need for firms to recruit staff of the highest caliber. Recruitment of the ‘high-lyers’ and ‘good quality people’ emphasized by respondents in audit firms and highlighted in the firms’ marketing literature needs to identify two aspects of performance. First, their technical skills and Second, auditors and trainee auditors should possess the social skills necessary to maintain and develop

long-term relationships with audit clients. Although it may be desirable for auditors to see themselves as ‘relationship managers’ selling a relatively complex mix of professional services, there is a danger that an over-emphasis of client-centeredness could lead to accommodating behaviors. Educators and staff development partners need to be mindful that audit trainees are fully aware of who the real client is (the end-user of financial statements).

The practitioner should implement quality control policies and procedures designed to ensure that all assurance engagements are conducted in accordance with applicable standards. Under the International Standard on Quality Control (ISQC 1, IFACc: 2004), the audit firm has an obligation to establish a system of quality control designed to provide it with reasonable assurance that the firm and its personnel comply with professional standards and regulatory and legal requirements, and that the assurance reports issued by the firm or engagement partners are appropriate in the circumstances.

The auditor should comply with the Code of Ethics for Professional Accountants issued by the International Federation of Accountants (ISA 200, IFAC, 2005a). Ethical principles governing the auditor’s professional responsibilities are as follows (see also Chapter 7): a) independence; b) integrity; c) objectivity; d) professional competence and due care; e) confidentiality; f) professional behavior; and g) Technical standards.

According to these principles, the following responsibilities are assigned to the auditor:

- The auditor should conduct an audit in accordance with ISAs. These contain basic principles and essential procedures together with related guidance in the form of explanatory documents and other materials.
- The auditor should plan and perform an audit with an attitude of professional skepticism recognizing that circumstances may exist that cause the financial statements to be materially misstated. An attitude of professional skepticism means the auditor makes a critical assessment of documents and the validity of audit evidence obtained, and signals audit evidence that contradicts or brings into question the reliability of documents or management representations. For example, an attitude of professional skepticism is necessary throughout the audit process for the auditor to reduce the risk of overlooking suspicious circumstances, of over generalizing when drawing conclusions from audit observations, and of using invalid assumptions in determining the nature, timing and

extent of the audit procedures and evaluating the results thereof. In planning and performing an audit, the auditor neither assumes that management is dishonest nor assumes its full honesty. Accordingly, representations from management are not a substitute for obtaining sufficient appropriate audit evidence to be able to draw reasonable conclusions on which to base the audit opinion.

The actions of external auditors and their personal and professional characteristics are being closely scrutinized by interested parties in financial markets. External auditors are now faced with greater ethical challenges than were once addressed through the limited professional code of ethics. Ethical judgments, which are now made in a firmer, more professional way, have a direct and immediate influence on auditors' reputations, a determinant factor in their level of activity in the capital market. This change of perspective places more importance on the development of sound principles and a strong professional code of ethics resulting from higher public expectations of integrity, objectivity and the independence of external auditors.

The audit profession and audit firms carry out practice monitoring and discipline. Each public practice adopts policies and procedures to ensure that practicing qualified accountants adhere to professional standards. Audit firms establish, maintain and enforce quality control policies and procedures that are designed to provide each firm with reasonable assurance that it complies with professional standards, maintains its technical capabilities, applies the appropriate expertise on all audits, and meets the regulatory agencies' requirements.

Effective self-regulation by individual audit firms is an essential part of the profession's overall self-regulatory system.

Quality assurance is not only a tool for disciplinary sanctions. It aims also to enforce, demonstrate and improve audit quality. Along with public and self-regulatory measures, it is necessary to implement some enforcement actions to ensure that standards on auditing and ethics are effectively applied. Shortcomings must be subject to sanctions, including, in the worst cases, removal from the register of auditing firms in charge of public companies.

The additional investigation and disciplinary actions, such as those of judges or independent persons, and appropriate transparency in the process, are necessary safeguards in showing that the audit profession takes rules and standards seriously. Investigation, discipline and sanctions of

external auditors can also be part of the responsibility of national oversight mechanisms. They must uphold the principle of fairness in defining disciplinary actions and due process (including appeals) in the use of such powers.

Systems of disciplinary sanctions are an effective instrument to correct and prevent inadequate audit quality. They are also a means for the audit profession to demonstrate its public credibility. The enforcement of appropriate sanctions was already required under the Eighth European Directive (1984). Furthermore, the Commission recommendation on Quality Assurance (2000) requires a systematic link between negative outcomes of quality reviews and sanctions under the disciplinary system. The ISQC 1, IFAC, 2005 places an obligation on a firm to establish a system of quality control designed to provide it with reasonable assurance that the firm and its personnel comply with professional standards and applicable regulatory and legal requirements, and that the reports issued by the firm or engagement partners are appropriate in the circumstances.

While the Commission acknowledges that it may be difficult to harmonize sanctions in auditing due to differences in judicial and legal systems, it intends to consider further steps towards the convergence of disciplinary procedures, notably with regard to transparency and publicity. An obligation to co-operate in cross-border cases will be included, as in the Market Abuse Directive. In particular, systems of disciplinary sanctions should be subject to external public oversight. The Commission intends to reinforce the existing requirement for appropriate sanctions provided in the modernized Eighth Directive (2005) by requiring that all member states have an appropriate and effective system of sanctions.

According to ISQC 1, IFAC, 2005 the firm's system of quality control should include policies and procedures addressing each of the following elements: a) leadership responsibilities for quality within the firm; b) ethical requirements; c) acceptance and continuance of client relationships and specific engagements; d) human resources; e) review responsibilities; f) engagement performance; g) engagement quality control review; and h) monitoring.

### **2.5.2. Exercises Professional Skepticism;**

The auditor has a responsibility to plan and perform the audit to obtain reasonable assurance about whether financial statements are free of material misstatement, whether caused by fraud or error. When obtaining reasonable assurance, an auditor maintains an attitude of professional skepticism throughout the audit considers the potential for management override of controls and recognizes the fact that audit procedures that are effective for detecting error may not be appropriate in the context of an identified risk of material misstatement due to fraud ([www.pcaobus.org](http://www.pcaobus.org)).

Professional skepticism is an attitude that includes a questioning mind and a critical assessment of audit evidence. Professional skepticism requires the questioning of whether the information and audit evidence obtained suggest that a material misstatement due to fraud may exist. For those charged with corporate governance, maintaining such an attitude means that the auditor carefully considers the reasonableness of responses to inquiries of those responsible people, and other information obtained from them, in light of all other evidence obtained during the audit. Because of the nature of fraud and the difficulties encountered by auditors in detecting material misstatements in the financial statements resulting from fraud, it is important that the auditor obtains a written representation from management confirming that it has disclosed to the auditor the results of management's assessment of the risk that the financial statements may be materially misstated as a result of fraud and its knowledge of actual, suspected or alleged fraud affecting the company.

In accordance with ISA 200, IFAC, 2005a the auditor maintain professional skepticism throughout the audit, recognizing the possibility that a material misstatement due to fraud could exist, notwithstanding the auditor's past experience of the honesty and integrity of the entity's management and those charged with governance.

### **2.5.3. Independence and Objectivity;**

The concept of the independence of the auditor from management as a supplier of corporate financial information is part of the auditor's professional ethics and underscores the responsibility of auditors towards the various users of financial statements. As with management, this responsibility is reinforced through the legal liability of the auditor, including securities acts

implemented in countries with a strong market economy. It should be emphasized that auditors, in addition to being risk-bearers as economic agents, are major suppliers of information and have an obvious stake in the financial reporting environment (Dart, E. (2009).

The need for an independent third party to establish the degree of correspondence between assertions made by management and user criteria is the result of four conditions: a) conflict of interest; b) consequences; c) complexity; and d) remoteness.

The external auditors must remain independent and objective throughout the provision of their external audit services and when formulating their audit opinion.

The provision of additional non-audit related services by the external auditor has the potential to impinge upon their independence and objectivity. This can also give rise to an external perception that the external auditors' independence and objectivity is compromised.

External auditors need to be met prior to the appointment of professional financial advisors for non-audit services to safeguard the independence and objectivity of the external auditors.

Ethical Standards for Auditors explain that threats to auditor objectivity and independence may arise from:

- *Self-interest threats* which arise when the auditor has financial or other interests which might cause it to be reluctant to take actions that would be adverse to the interests of the audit firm or any individual in a position to influence the conduct and outcome of the audit;
- *Self-review threats* which arise when the results of a non-audit service performed by the auditor or others within the firm are reflected in the amounts included or disclosed in the financial statements of the audited entity;
- *Management threats* which arise where partners and employees of the audit firm make judgments or take decisions on behalf of the management of the audited entity;
- *Advocacy threats* which arise when the audit firm undertakes work that involves acting as an advocate for an audited entity and supporting a position taken by management in an adversarial context;
- *Familiarity threats* which arise when the auditor is predisposed to accept or is insufficiently questioning of the audited entity's point of view; and
- *Intimidation threats* which arise when the auditor's conduct is influenced by fear or threats.

If the auditor provides non-audit services, other than audit-related services, explain for each significant engagement, or category of engagements, what the services are, why the audit committee concluded that it was in the interests of the Group to purchase them from the external auditor (rather than another supplier) and how auditor objectivity and independence has been safeguarded (Beattie, V. Fearnley, S. and Brandt, R. (1999)).

#### **2.5.4. Communications with the Board/Audit Committee**

Section 301 of the Sarbanes-Oxley Act of 2002 requires the audit committee to be responsible for the appointment, compensation and oversight of the external auditor, and for audit firms to report directly to the audit committee. Robust and timely communications between an auditor and audit committee can benefit a committee's oversight of the financial reporting process and the external audit, contributing to audit quality.

Communication of planning matters by the auditor to the audit committee shows scope changes that are responsive to changes in the size, risk and nature of the business. Communication of planning matters by the auditor to the audit committee shows clear understanding of the business and the risks that matter most. Audit committee's consideration as to whether the external audit scope makes sense in the context of the areas of the business that it is concerned about. Audit approach is clearly modified year on year as appropriate.

#### **2.6. Knowledge gap identified**

There were not satisfactory the assessments and related studies were conducted on the areas of quality of audit services provided by private audit firms on our global. On the contrary in Ethiopia there were no studies made on the quality of external audit services especially in context of private audit firms. This implies that the academicians, societies, the government and generally the user of the external audit reports might have not information on the importance of quality audit and its impacts on audited financial statement and on decisions made by the users of this audited financial reports.

The study was tried to fill these knowledge gap which was identified on the pervious topic and describe the performance of grades' 'A' authorized private audit firms on the quality of audit

services in Ethiopia in line with internationally accepted audit practices and audit quality control procedures.

### **2.7. The good Qualities of the Study**

There were no studies made on the quality of external audit services in the context of private audit firms in the country. The academicians, societies, the government and generally the user of the external audit reports might have not information on the importance of quality audit and its impacts on audited financial statement and on the decisions made by the users of this audited financial reports.

Therefore the study was tried to fill these knowledge gap and describe the performance of grades' 'A' authorized private audit firms on the quality of audit services in Ethiopia in line with internationally accepted audit practices and audit quality control procedures. The study was performed in one dimension, through survey questionnaires to all grades' 'A' authorized auditors, so the study is rehearsal of an external auditors.

## **CHAPTER THREE: Research Methodology**

### **3.1. Introduction**

This chapter reports the research methodology which is a systematic way to accomplish the research objectives or to solve the research problem. This chapter is structured as follows: Section 3.2 explains about study design. Section 3.3 presents the study Sampling Design and the Sample Size. Section 3.4 presents the data collection method. The last section 3.5 is about data analysis.

### **3.2. Study Design**

To enable the researchers address the objectives of the study, a descriptive research was the preferred choice since it was meant to present a picture of the specific details of a business setting among other things. Since the focus is on an assessment of quality external audit services in grades ‘A’ private audit firms exist in Ethiopia. The data collection was restricted to grades ‘A’ audit firms found in Ethiopia. The target respondents include head of the Audit firm, Audit Manager and Team Leader/Senior Auditor within each grades ‘A’ private audit firms. The target respondents are experienced and qualified auditors their positions are above senior auditor therefore they much more know about audit and audit quality. A convenience sampling method was used to select respondents from these target populations.

### **3.3. Sampling Design and the Sample Size**

There are 88 private audit firms are authorized and providing an audit services in Ethiopia which are categorized in three grades (AABE 2015). Those are Grades “A” 10 firms, Grades “B” 15 firms and level “C” 63 firms totally 88 private audit firms. Because of time constraints and to be cost effective the study was not supposed to cover all three grades rather limited to all Grades “A” audit firms totally ten (10). Grades “A” authorized audit firm’s a combinations of experienced and qualified professional auditors, they are potentially strong and big in size than grades “B” and Grades “C”. Majority of big private companies and big international NGOs exists in the Country are audited by Grades “A” audit firms because of the fact that selecting Grades “A” other than the others is appropriate selection for the study. The target respondents were the Head of the Audit firm, Audit Manager and Team Leader/ Senior Auditor and totally 30 Survey questionnaires were distributed and collected from those target respondents.

### **3.4. Data Collection Method**

To gather the necessary information, Primary data was collected from respondents through a Survey questionnaire and Self-administered questionnaires usually completed by the respondents and administered electronically using the Internet (through respondent's e-mails) and delivered by hand to each respondent and collected later (delivery and collection questionnaires).

The choice of questionnaire will be used by considering the following factors related to this study research question(s) and objectives: a) characteristics of the respondents from whom the study wish to collect data; b) importance of reaching a particular person as respondent; c) importance of respondents' answers not being contaminated or distorted; d) size of sample the study require for my analysis, taking into account the likely response rate; e) types of question the study need to ask to collect my data; and f) number of questions the study need to ask to collect my data.

The types of questionnaires the study choose are dictating how sure the study can be that the respondent is the person whom the study wishes to answer the questions and thus the reliability of responses. Therefore the study design the questions by adopt questions used in other questionnaires and adapt questions used in other questionnaires. Adopting or adapting questions is more efficient than developing once own questions and provided that the study can still collect the data and the study need to answer my research question(s) and to meet my objectives (Bourque and Clark 1994).

Prior to using my questionnaire to collect the final data, the pilot test was conducted for certified accountants (ACCA holders), experienced Auditors and Accounting and Auditing Board of Ethiopia (AABE) since the AABE is the regulator body of authorized private auditors. The pilot test aims to refine the questionnaire to ensure that respondents have no problems answering the questions. It assesses, also, the validity and reliability of the questions (Saunders et al., 2009). So that respondents were no problems in answering the questions and there were no problems in recording the data but there were some comment on Clarity of some questions.

### **3.5. Data Analysis**

To be useful these data need to be analyzed and interpreted. Quantitative analysis techniques assist me in this process those are descriptive and frequency statistical analyses were employed. The processed data was analyzed by using spreadsheets such as Excel™ and SPSS 20 for Windows™ were used.

## CHAPTER FOUR: Results and Discussion

### 4.1. Introduction

The chapter explains and discusses the results of findings based on the analysis done on the data collected. The results of the study are discussed the questionnaire results. The discussion attempts to accomplish the objectives of the study and answer the research questions.

As indicated in the previous chapter a survey was the main strategy for this study. A total of 30 questionnaires distributed to 30 target respondents which are selected based on convenience sample selection method and usable response rate are 100 percent. To this end, the results obtained from the survey are analyzed through descriptive statistics, frequency distribution. Descriptive measures of the questions response. Therefore, the chapter is organized into two sections. The first section 4.1 presents the introduction of chapter. The second section 4.2 discusses the results of the study which is followed by the results of descriptive statistics and descriptive measures of the questions response, frequency distribution.

### 4.2. Survey Results

The survey results on the total of 30 questionnaires distributed to 30 target respondents which are selected based on purposive sample selection method in the 10 Grades ‘A’ private audit firms and usable response rate are 100%. All the survey respondents were located in Addis Ababa.

The purpose of this section is to present the results of data obtained from target respondents. The reliability test of the variables was attached to appendix (D)

#### DESCRIPTIVE STATISTICS

##### Frequency Table for Demographic Characteristics of Respondents:

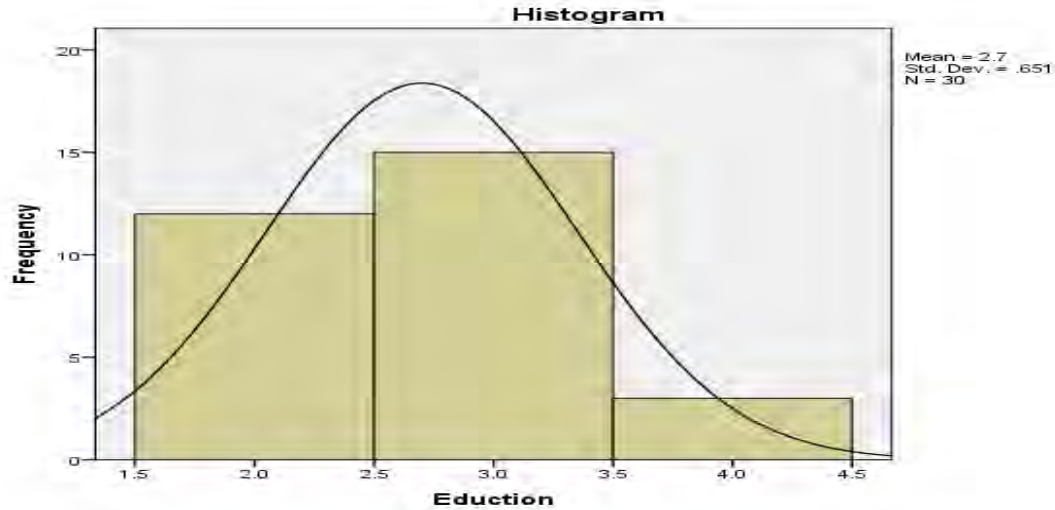
Gender, Education, Experience and position are the respondent’s demographic backgrounds information used for this study and the summer of analysis shown below.

**Table 4.1 Descriptive Statistics of gender**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Male	24	80.0	80.0	80.0
Valid Female	6	20.0	20.0	100.0
Total	30	100.0	100.0	

24(80%) of the respondents are Male and 6(20%) are Female.

**Fig. 1. The frequency distributions for education.**

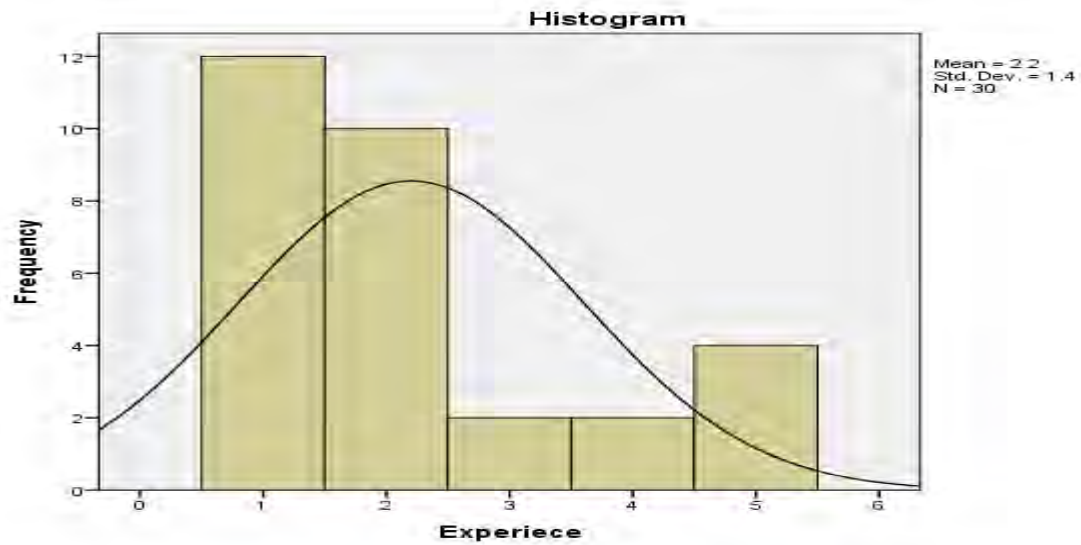


12(40%) of the respondents are BA holders, 15(50%) are ACCA holders and 3(10%) MSC holders respectively.

The Mean = 2.7 shows that the average respondents' education background is between BA and MSc holders.

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**Fig. 2. The frequency distributions for Experience.**



12(40%) of the respondents are having less than 5 years experience, 10(33.3%) 6-10 years, 2(6.7%) 11-15 years, 2(6.7%) 16-20 years and 4(13.3%) over 20 years respectively.

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The Mean = 2.2 shows that the average respondents' experience is between 6-10 years and 11-15 years.

**Table 4.2 Descriptive Statistics of position.**

	Frequency	Percent	Valid Percent	Cumulative Percent
senior auditor	10	33.3	33.3	33.3
manager	10	33.3	33.3	66.7
head of the firm	10	33.3	33.3	100.0
Total	30	100.0	100.0	

10(33.3%) of the respondents are Head of the Firm, 10(33.3%) Audit Manages and 10(33.3%) are Senior Auditors respectively.

**Table 4.3 Descriptive Statistics of general summary**

	N	Range	Minimum	Maximum	Sum	Mean		Std. Deviation	Variance	Skewness	
	Statistic	Statistic	Statistic	Statistic	Statistic	Statistic	Std. Error	Statistic	Statistic	Statistic	Std. Error
Gander	30	1	0	1	6	.20	.074	.407	.166	1.580	.427
Education	30	2	2	4	81	2.70	.119	.651	.424	.385	.427
Experience	30	4	1	5	66	2.20	.256	1.400	1.959	1.074	.427
Position	30	2	1	3	60	2.00	.152	.830	.690	.000	.427
Valid N (listwise)	30										

DESCRIPTIVES VARIABLES = Gender Education, Experience and Position

/STATISTICS=MEAN SUM STDDEV VARIANCE RANGE MIN MAX SEMEAN SKEWNESS.

#### **4.2.1. Quality External Audit Service**

Under this sub section, the quality external audit service has been presented as follows.

There are thirteen questions distributed and collected to assess quality external audit service and the summary of analysis shows below table 4.4.

**Table 4.4 Descriptive Statistics of the quality external audit service**

Items	Frequency				Percent				Valid Percent			
	yes	no	partially	N/A	yes	no	Partially	N/A	yes	no	partially	N/A
1) Does the audit engagement team demonstrate the skills and experience necessary to address the company's areas of greatest financial reporting risk?	25		5		83.3		16.7		83.3		16.7	
2) Does the audit engagement team have access to appropriate specialists and/or national office resources during the audit?	14	2	11	3	46.7	6.7	36.7	10.0	46.7	6.7	36.7	10.0
3) Does the engagement team provide a sound risk assessment at the outset of the audit, including an assessment of fraud risk?	19	1	8	2	63.3	3.3	26.7	6.7	63.3	3.3	26.7	6.7
4) During the engagement the auditor demonstrated a good understanding of the company's business, industry, and the impact of the economic environment on the company?	25	2	3		83.3	6.7	10.0		83.3	6.7	10.0	
5) Did the auditor identified and responded to any auditing and accounting issues that arose from changes in the company or its industry, or changes in applicable accounting and auditing requirements?	26	2	2		86.7	6.7	6.7		86.7	6.7	6.7	
6) Are there statutory and regulatory independence requirements for auditors?	23	1	5	1	76.7	3.3	16.7	3.3	76.7	3.3	16.7	3.3
7) Does the firm and auditor independent of the issuer and in the case of mutual funds, independent of the investment company complex?	19	1	2	8	63.3	3.3	6.7	26.7	63.3	3.3	6.7	26.7
8) Did the auditor advises the audit committee of any services or relationships that reasonably can be thought to bear on the firm's independence?	12	4	9	5	40.0	13.3	30.0	16.7	40.0	13.3	30.0	16.7
9) Does the auditor demonstrated integrity, objectivity and professional skepticism.....?	24	4	2		80.0	13.3	6.7		80.0	13.3	6.7	
10) Does the auditor evaluate the methods and assumptions used and challenge, where necessary, management's assumptions and application of accounting policies, including the completeness and transparency of the related disclosures?	27		3		90.0		10.0		90.0		10.0	
11) Does the auditor clearly articulate the processes followed and summarize the evidence used to evaluate the significant estimates and judgments.....?	25		5		83.3		16.7		83.3		16.7	
12) Does the auditor essential for the audit committee to obtain the information it needs to fulfill its responsibilities to oversee the company's financial reporting processes?	16	1	8	5	53.3	3.3	26.7	16.7	53.3	3.3	26.7	16.7
13) Did the auditor communicate with the audit committee as significant issues arisen, to ensure that committee has a complete understanding of the stages of	14	4	8	4	46.7	13.3	26.7	13.3	46.7	13.3	26.7	13.3

the audit cycle .....												
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Source: IBM SPSS 20 Survey results

The responses for each questions shown in table 4.4 above that, majority of respondents said ‘Yes’. When we see the audacious questions for example question number one 25(83.3%) respondents said ‘Yes’, question number five 26(86.7%), question number six 23(76.7%), question number nine 24(80.0%), question number ten 27(90.0%), question number eleven 25(83.3%) and question number twelve 16(53.3%), respondents said ‘Yes’ respectively. This implies that the assessment questions regarding quality of external audit services were conducted during audit within their audit firm and by the audit professions.

#### 4.2.2. Quality of Service and Sufficiency of Resources

In this section, the questionnaire results related to quality of service and sufficiency of resources are presented.

Twenty questions were distributed to assess quality of service and sufficiency of resources.

**Table 4.5.Descriptive statistics on Quality of Service and Sufficiency of Resources**

Items	Frequency				Percent				Valid Percent			
	yes	no	partially	N/A	yes	no	partially	N/A	yes	no	partially	N/A
1) Was the audit plan appropriate for the auditee given risks known to the Board/Audit Committee?	16		13	1	53.3		43.3	3.3	53.3		43.3	3.3
2) Have the lead engagement partner and audit team the necessary knowledge and skills (company-specific, industry, accounting, auditing) to meet the company’s audit requirements and the right resources dedicated to the audit?	28		2		93.3		6.7		93.3		6.7	
3) Has the audit firm financial audit manuals, quality control manuals and audit works were conducted in accordance with it?	21	1	7	1	70.0	3.3	23.3	3.3	70.0	3.3	23.3	3.3
4) Has the firm established policies and procedures designed to provide it with reasonable assurance that the firm and its personnel comply with relevant ethical requirements?	26	1	3		86.7	3.3	10.0		86.7	3.3	10.0	
5) Did the firm Perform engagements in accordance with professional standards and applicable legal and regulatory	28		2		93.3		6.7		93.3		6.7	

requirements; and reports that are appropriate in the circumstances?												
6) Did the firm establish a monitoring process designed to provide it with reasonable assurance that the policies and procedures relating to the system of quality control are relevant, adequate, and operating effectively?	18	1	10	1	60.0	3.3	33.3	3.3	60.0	3.3	33.3	3.3
7) Did the audit firm make extensive use of statistical techniques when undertaking the audit and operates to the highest standards of integrity?	12	7	11		40.0	23.3	36.7		40.0	23.3	36.7	
8) Does the audit approach clearly demonstrate the extent to which the underlying control environment is considered and relied upon including how (rotation, reliance and re-testing, etc.) and have business risks been properly considered when assessing audit risks?	15	1	13	1	50.0	3.3	43.3	3.3	50.0	3.3	43.3	3.3
9) Has the audit firm a training program for auditors and appropriate training has been given to auditors?	17	6			56.7	20.0			56.7	20.0		
10) An engagement has been planned and performed in accordance with professional standards and whether reports issued are appropriate in the circumstances?	27		3		90.0		10.0		90.0		10.0	
11) Is the engagement partner actively involved in the engagement beginning with the initial planning and throughout the audit process?	16	2	12		53.3	6.7	40.0		53.3	6.7	40.0	
12) Has the audit firm rarely been found negligent in litigation against it – alleging inadequate audit performance?	2	22	2	4	6.7	73.3	6.7	13.3	6.7	73.3	6.7	13.3
13) Are the engagement partner and senior manager making frequent visits to the audit site for technical review purposes?	8	6	15	1	26.7	20.0	50.0	3.3	26.7	20.0	50.0	3.3
14) Are enough auditor resources assigned to the audit, and continuity of audit staff is strived for?	17	1	12		56.7	3.3	40.0		56.7	3.3	40.0	
15) Does evidence that the audit partner is supported by Quality Assurance processes and technical specialists?	15	3	11	1	50.0	10.0	36.7	3.3	50.0	10.0	36.7	3.3
16) Do the partner(s) and manager(s) commit an appropriate amount of time to undertake the audit, to supervise staff and to meet directly with management and the audit committee?	22	3	5		73.3	10.0	16.7		73.3	10.0	16.7	

17) Does the audit partner discusses the audit plan with the Board/Audit Committee and explains the approach to key areas?	13	8	7	2	43.3	26.7	23.3	6.7	43.3	26.7	23.3	6.7
18) Did the auditors identify opportunities and risks relevant to the entity and outcome of any regulatory review is discussed with the audit committee?	13	9	5	3	43.3	30.0	16.7	10.0	43.3	30.0	16.7	10.0
19) Is there an effective working relationship between the external and internal auditors, as well as other advisors (e.g. Tax)?	16	2	11	1	53.3	6.7	36.7	3.3	53.3	6.7	36.7	3.3
20) Where parts of the audit are performed by teams in multiple locations, the partner provided information about the technical skills, experience and objectivity of those auditors?	19		10	1	63.3		33.3	3.3	63.3		33.3	3.3

Source: IBM SPSS 20 Survey results

The responses for each questions shown in table 4.5 above that, majority of respondents said ‘Yes’. When we see the audacious questions for example question number one 16(53.3%) respondents said ‘Yes’, question number two 28(93.3%), question number three 21(70.0%), question number four 26(86.7%), question number five 28(93.3%), question number six 18(60.0%), question number six 17(56.7%), question number eight 15(50.0%), question number nine 17(56.7%), question number ten 27(90.0%), question number eleven 16(53.3), question number fourteen 17(56.7%), question number fifteen 15(50.0%), question number nineteen 22(73.3%) and question number twenty 19(63.3%), respondents said ‘Yes’ respectively. This implies that the assessment questions regarding quality of services and sufficiency of resources were conducted during audit within their audit firm and by the audit professions.

#### 4.2.3. Exercises Professional Skepticism

In this section, six questions were distributed and collected to assess exercises of external auditors Professional Skepticism. Tables 4.6 shown below the summarized analysis results are presented.

**Table 4.6. Descriptive statistics of Exercises of Professional Skepticism**

Questions	Frequency				Percent				Valid Percent			
	yes	no	partially	N/A	yes	no	partially	N/A	yes	no	partially	N/A
1)Is there evidence that the audit team challenges, rather than rationalizes significant estimates, judgments and accounting policy choices made by management?	14	3	12	1	46.7	10.0	40.0	3.3	46.7	10.0	40.0	3.3
2)Did the auditors rely on external experts where necessary, and appropriately considered quality of advice received?	15	3	9	3	50.0	10.0	30.0	10.0	50.0	10.0	30.0	10.0
3)The partner inspires confidence, and his/her opinion is valued?	17	3	9	1	56.7	10.0	30.0	3.3	56.7	10.0	30.0	3.3
4)Were discussion between the auditors and management on fraud risk, prevention and detection led at the appropriate level and were challenging and comprehensive?	16	3	10	1	53.3	10.0	33.3	3.3	53.3	10.0	33.3	3.3
5)Is the auditor open in dealing with difficult situations?	25	1	4		83.3	3.3	13.3		83.3	3.3	13.3	
6)Did the auditor discuss sensitive issues candidly and professionally?	29	1			96.7	3.3			96.7	3.3		

Source: IBM SPSS 20 Survey results

The responses for each questions shown in table 4.6 above that, majority of respondents said ‘Yes’. When we see the audacious questions for example question number two 15(50.0%) respondents said ‘Yes’, question number three 17(56.7%), question number four 16(53.3%), question number five 25(83.3%) and question number six 29(96.7%), respondents said ‘Yes’ respectively. This implies that the assessment questions regarding quality of services and sufficiency of resources were conducted during audit within their audit firm and by the audit professions.

#### 4.2.4. Independence and Objectivity

In this section, seven questions were distributed and collected to assess external auditor's independence and objectivity. Tables 4.7 shown below the summarized analysis results are presented.

**Table 4.7 Descriptive statistics of Exercises of external auditor's Independence and Objectivity**

Questions	Frequency				Percent				Valid Percent			
	yes	no	partially	N/A	yes	no	partially	N/A	yes	no	partially	N/A
1)Is there a robust/strong/ process to obtain approval for non-audit services?	9	6	12	3	30.0	20.0	40.0	10.0	30.0	20.0	40.0	10.0
2)Does the audit partner communicate the nature of non-audit services, including the safeguards put in place to protect independence?	11	2	15	2	36.7	6.7	50.0	6.7	36.7	6.7	50.0	6.7
3)Is it clear from the communications the auditors that independence and objectivity have been achieved?	21		9		70.0		30.0		70.0		30.0	
4)Did the audit firm rotate the engagement partner in line with their own firm or commercial code?	12	4	11	3	40.0	13.3	36.7	10.0	40.0	13.3	36.7	10.0
5)Did the fees charged by the auditors fairly reflect the nature and complexity of the issues of the entity?	11	6	12	1	36.7	20.0	40.0	3.3	36.7	20.0	40.0	3.3
6)Does the auditor maintain a respectful but questioning approach throughout the audit?	27	2	1		90.0	6.7	3.3		90.0	6.7	3.3	
7)Is the relationship between auditors and management is appropriate, such that there is no perception that the auditors may lack, or appear to lack, the required degree of objectivity?	22	1	7		73.3	3.3	23.3		73.3	3.3	23.3	

Source: IBM SPSS 20 Survey results

The responses for each questions shown in table 4.7 above that, majority of respondents said 'Yes' and 'Partially'. When we see the audacious questions for example question number one 9(30.0%) respondents said 'Yes' and 12 (40.0%) respondents said 'Partially', question number two 11(36.7%) respondents said 'Yes' and 15(50.0%) respondents said 'Partially', question

number four 12(40.0%) respondents said ‘Yes’ and 11(36.7%) respondents said ‘Partially’, question number five 11(36.7%) respondents said ‘Yes’ and 12(40.0%) respondents said ‘Partially’. On the other hand respondents said ‘Yes’ for not audacious questions; questions like number three 21(70.0%), number six 27(90.0%) and question number seven 22(73.3%), said ‘Yes’ respectively. This implies that the assessment questions regarding external auditors’ independence and objectivity were not performed as expected during the conduct of audit within their audit firm and by the audit professions.

#### 4.2.5. Communications with the Board/Audit Committee

In this section, eleven questions were distributed and collected to assess external auditor’s communications with their clients. Tables 4.8 shown below the summarized analysis results are presented.

**Table 4.8 Descriptive statistics of Exercises of external auditor’s Communications with Board/Audit Committee**

Items	Frequency				Percent				Valid Percent			
	Yes	no	partially	N/A	yes	no	partially	N/A	yes	no	partially	N/A
1)Does the engagement partner arrange regular meetings with the client’s key staff to identify issues of concern?	16	6	7	1	53.3	20.0	23.3	3.3	53.3	20.0	23.3	3.3
2)Is there honest and complete dialogue between the engagement partner and the Board/Audit Committee?	13	5	10	2	43.3	16.7	33.3	6.7	43.3	16.7	33.3	6.7
3)Is there timely and informative communication about current accounting and/or other developments?	19	3	8		63.3	10.0	26.7		63.3	10.0	26.7	
4)Are the Board/Audit Committee kept informed about progress of the audit and difficulties encountered?	20		10		66.7		33.3		66.7		33.3	
5)Is the engagement partner accessible to Board/Audit Committee?	19	1	10		63.3	3.3	33.3		63.3	3.3	33.3	
6)Communication focuses on key risks identified, how they were addressed and the conclusions reached, as well as the reasonableness of estimates, judgments and disclosures?	19	1	10		63.3	3.3	33.3		63.3	3.3	33.3	
7)The audit partner provides	15		12	3	50.0		40.0	10.0	50.0		40.0	10.0

insightful comments in ‘in-committee’ sessions with the Board/Audit Committee?												
8)Is the audit plan communicated to the Audit Committee, which reflects a clear understanding of the entity?	14	3	10	3	46.7	10.0	33.3	10.0	46.7	10.0	33.3	10.0
9)The level of materiality applied by the auditors has been explained satisfactorily?	14	3	13	-	46.7	10.0	43.3	-	46.7	10.0	43.3	-
10)Are comments provided on a timely basis in relation to concerns over accounting treatment, estimates and financial reporting systems/processes?	26	-	3	1	86.7	-	10.0	3.3	86.7	-	10.0	3.3
11)In executive sessions, did the auditor discuss sensitive issues candidly and professionally?	23	1	5	1	76.7	3.3	16.7	3.3	76.7	3.3	16.7	3.3

Source: IBM SPSS 20 Survey results

The responses for each questions shown in table 4.8 above that, majority of respondents said ‘Yes’. When we see the audacious questions for example question number one 16(53.3%) respondents said ‘Yes’, question number three 19(63.3%), question number four 20(66.7%), question number five 19(63.3%), question number six 19(63.3%), question number six , question number seven 15(50%), question number ten 26(86.7%) and question number eleven 23(76.7%), respondents said ‘Yes’ respectively. This implies that this implies that the majority of respondents perceive were external auditors are communicated with their clients’ Board/Audit Committee on critical audit issues.

### 4.3. Discussion of Summary results

The discussion part highlights the details results in to summery forms and the implications of the results.

**Table 4.9 Descriptive Statistics of summery results of quality external audit service**

	Frequency	Percent	Valid Percent	Cumulative Percent
Yes	19	63	63	62
No	2	7	7	71
Partially	5	17	17	92
not applicable	4	13	13	100
Valid Total	30	100	100	325

Source: IBM SPSS 20 Survey results

The responses for each questions shown in table 4.4 above that, majority of respondents said ‘Yes’. The summery result from table 4.9 indicates that 19(63%) of respondents perceptions assessment questions on quality external audit services were performed during their audit work. This implies that grades ‘A’ audit firms present quality audit services.

**Table 4.10 Descriptive Statistics of summery results of Quality of Service and Sufficiency of Resources**

	Frequency	Percent	Valid Percent	Cumulative Percent
yes	16	53	53	58
not	5	17	17	57
partially	7	23	23	97
not applicable	2	7	7	100
Valid Total	30	100	100	

Source: IBM SPSS 20 Survey results.

The responses for each questions shown in table 4.5 above that, majority of respondents said ‘Yes’. The summery result from table 4.10 indicates that 16(53%) of respondents perceives quality of services are rendered and sufficient resources were available /no problems with the sufficiency of resources for audit works by grades ‘A’ audit firms.

**Table 4.11 Descriptive Statistics of summery results of Exercises of Professional Skepticism**

	Frequency	Percent	Valid Percent	Cumulative Percent
yes	18	60	60	64
no	2	7	7	72
partially	8	26	26	96
not applicable	2	7	7	100
Valid Total	30	100	100	

Source: IBM SPSS 20 Survey results.

The responses for each questions shown in table 4.6 above that, majority of respondents said ‘Yes’. The summery result from table 4.11 indicates that 18(60%) of respondents perceives of external auditors exercises their Professional Skepticism during audit work within the grades ‘A’ audit firms.

The responses for each questions shown in table 4.7 above that, majority of respondents said ‘Yes’ and ‘Partially’. When we see the audacious questions for example question number one 9(30.0%) respondents said ‘Yes’ and 12 (40.0%) respondents said ‘Partially’, question number two 11(36.7%) respondents said ‘Yes’ and 15(50.0%) respondents said ‘Partially’, question number four 12(40.0%) respondents said ‘Yes’ and 11(36.7%) respondents said ‘Partially’, question number five 11(36.7%) respondents said ‘Yes’ and 12(40.0%) respondents said ‘Partially’. On the other hand respondents said ‘Yes’ for not audacious questions; questions like number three 21(70.0%), number six 27(90.0%) and question number seven 22(73.3%), said ‘Yes’ respectively. This implies that the assessment questions regarding external auditors’ independence and objectivity were not performed as expected during the conduct of audit within their audit firm and by the audit professions.

**Table 4.12 Descriptive Statistics of summery results of External Auditors communication**

	Frequency	Percent	Valid Percent	Cumulative Percent
yes	18	60	60	60
no	2	7	7	66.7
partially	8	26	26	97
not applicable	2	7	7	100
Valid Total	30	100	100	

Source: IBM SPSS 20 Survey results.

The responses for each questions shown in table 4.8 above that, majority of respondents said ‘Yes’. The summery results in table 4.12 shows that 18(60%) of respondents said ‘Yes’. The assessment questions designed to assessment external auditors’ communications were conducted and there was good communications among external auditors and Boards/Audit Committees on critical audit issues.

## **CHAPTER FIVE: Conclusions and Recommendations**

### **5.1. Introduction**

This chapter is the final part of the study and provides conclusions and recommendations drawn from the findings of study. Therefore, the chapter is organized into three sections. Section 5.1 introduction parts, the section 5.2 presents the conclusion and the section 5.3 presents recommendation.

### **5.2. Conclusions**

This study examined perceptions of audit quality by three sampled groups of professional auditors: senior auditors, audit managers and head of the audit firms were relatively homogenous (classified as “insiders”). It was hypothesized that “insiders”, because of their direct involvement in, and ability to observe the quality, the conduct and functioning of the audit because of the fact that would perceive how the audit were carried out and they are important in assessments of audit quality.

The external auditors remain independent and objective throughout the provision of their external audit services and when formulating their audit opinion. External auditors need to be met prior to the appointment of professional financial advisors for non-audit services to safeguard the independence and objectivity of the external auditors. The provision of additional non-audit related services by the external auditor has the potential to impinge upon their independence and objectivity.

The findings of the study reveal that respondents’ perceives external auditors are not independent and objective. It repeals the General Accounting and Auditing Standards (GAAS) requirements during the conduct of their audit. Because as per their expectations there is no a robust process to obtain approval for non-audit services, the audit partner does not or partially communicate the nature of non-audit services, including the safeguards put in place to protect independence, the audit firm does not or partially rotates the engagement partner in line with their own firm or commercial code and the fees charged by the auditors does not or partially fairly reflect the nature and complexity of the issues of the entity. This is consistent with expectations for senior auditors, audit managers and head of the audit firms. Therefore it has a great impact on preparation of quality audit report and also affects the users of those audited financial reports.

The findings also suggest some significant gaps in prior research that has focused on audit

quality and therefore point to future research opportunities. In this respect, [Knechel et al. 2013](#)) indicate that “there is little consensus about how to define audit quality and the various frameworks and disclosures that exist are incomplete”. In providing a means of resolving this issue, [\(Knechel et al. 2013\)](#) point out that audit quality is a multi-dimensional construct and suggest that in further investigating audit quality, the views of a wide range of authorized certified auditors and the users of audited financial statements like stakeholders, banks, governments and etc. concerning audit quality are need. These authors point out that “the perception of audit quality can depend very much on whose eyes you look through” ([Knechel et al., 2013](#), p. 386).

### **5.3. Recommendations**

Auditors should maintain an objective state of mind (IFAC (2004)). This means that the auditors does not direct the audit toward areas of personal interest or prejudge findings. The findings and report can be influenced only by evidence obtained and assembled in accordance with the other audit policies and guidance contained in this manual. The auditor needs an unbiased point of view when making decisions about scope, criteria, audit evidence, significance of observations, and conclusions.

Independence requires that the firm and members of the audit team, whether staff or contract personnel, should be free of any hindrances to their independence that could impair (or be seen to impair) their impartiality in carrying out their work, making judgments, forming opinions and conclusions or making recommendations (IFAC (2004)).

Audit staffs should encourage developing and maintaining good relations with officials and staff in the audited organization. The audit policies require the auditor to recommend corrective actions when reporting deficiencies. This conduct is to be carried out in a way that does not impair the independence of the audit firm or the auditor.

Finally future research could seek to assessment quality external audit services by increasing the sample of authorized certified auditors and considering the users of audited financial reports.



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## Appendix (A)

**Addis Ababa University**  
**College of business and economics**  
**Department of Accounting and Finance**  
**MSC Program in Accounting and Auditing**

### **Introduction**

An effective audit truly challenges and tests the contents of the financial statements in order to form an opinion on whether they present a true and fair view. An audit must, of course, comply with all relevant auditing and ethical standards. Beyond that, an effective audit must be an audit process tailored to the risks facing the entity, the business structure and the regulatory environment, an audit team that is technically strong, perceptive, intellectually curious and independent-minded bringing an informed professional skepticism to bear on management's approach and assertions, an audit approach that is based on an understanding of the control environment, including the role of information technology in supporting the financial reporting process and an audit culture that seeks continuous improvement and increased quality. Therefore the purpose of the study to ascertain external audit services are made accordingly in which clients has confidence.

**Directions:** Lists of questions are given below. The questions designed on the basis of a leading practice of audit committees' regularly evaluate the external audit services quality and the retention of the audit firm. The evaluation questions encompass an assessment of the qualifications and performance of the auditor and the quality, the auditor's independence, objectivity, professional skepticism and candor of the auditor's communications with the audit committee and the company. Please give your answer by saying **YES**, **No**, **Partially(P)** and **not applicable (NA)** for prescribed questions whether your audit firm conducted or performed, not conducted or not performed, partially conducted or performed and not applicable respectively and by putting (X) mark under **YES**, **NO**, **P** and **N/A** columns. This survey questioner is used for academic research purpose and the target respondents are Grades "A" private Audit Firms.

Thank you for taking the time to complete this questionnaire. If you have any queries please do not hesitate to contact Zergaw Chemedha by telephoning +251-911-943683 or emailing e-mail: zergaw12@gmail.com.

**Kind regards: Zergaw Chemedha, MSc Student, AAU.**



relationships that reasonably can be thought to bear on the firm's independence?

- |  |                          |                          |                          |                          |
|--|--------------------------|--------------------------|--------------------------|--------------------------|
| 9. Does the auditor demonstrated integrity, objectivity and professional skepticism. For example, the use of estimates and judgments in the financial statements and related disclosures (e.g., fair value, impairment) continues to be an important component of financial reporting?   | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 10. Does the auditor evaluate the methods and assumptions used and challenge, where necessary, management's assumptions and application of accounting policies, including the completeness and transparency of the related disclosures?  | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 11. Does the auditor clearly articulate the processes followed and summarize the evidence used to evaluate the significant estimates and judgments, and to form an opinion whether the financial statements, taken as a whole, were fairly presented in accordance with Internationally Accounting Standards and Generally Accepted Accounting Principles?   | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 12. Does the auditor essential for the audit committee to obtain the information it needs to fulfill its responsibilities to oversee the company's financial reporting processes?  | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 13. Did the auditor communicate with the audit committee as significant issues arisen, to ensure that committee has a complete understanding of the stages of the audit cycle (e.g., planning, completion of final procedures, and, if applicable, completion of interim procedures) and the communications focuses on the key accounting or auditing issues that, in the auditor's judgment, give rise to a greater risk of material misstatement of the financial statements, as well as any questions or concerns of the audit committee? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

**B. QUALITY OF SERVICE AND SUFFICIENCY OF RESOURCES**

QUESTIONS	YES	NO	P	N/A
1. Was the audit plan appropriate for the auditee given risks known to the Board/Audit Committee?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. Have the lead engagement partner and audit team the necessary knowledge and skills (company-specific, industry, accounting, auditing) to meet the company's audit requirements and the right resources dedicated to the audit?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. Has the audit firm financial audit manuals, quality control manuals and audit works were conducted in accordance with it?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4. Has the firm established policies and procedures designed to provide it with reasonable assurance that the firm and its personnel comply with relevant ethical requirements?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

- |  |                          |                          |                          |                          |
|--|--------------------------|--------------------------|--------------------------|--------------------------|
| 5. Did the firm Perform engagements in accordance with professional standards and applicable legal and regulatory requirements; and reports that are appropriate in the circumstances?   | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 6. Did the firm establish a monitoring process designed to provide it with reasonable assurance that the policies and procedures relating to the system of quality control are relevant, adequate, and operating effectively?  | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 7. Did the audit firm make extensive use of statistical techniques when undertaking the audit and operates to the highest standards of integrity?  | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 8. Does the audit approach clearly demonstrate the extent to which the underlying control environment is considered and relied upon including how (rotation, reliance and re-testing, etc.) and have business risks been properly considered when assessing audit risks? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 9. Has the audit firm a training program for auditors and appropriate training has been given to auditors?   | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 10. An engagement has been planned and performed in accordance with professional standards and whether reports issued are appropriate in the circumstances?  | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 11. Is the engagement partner actively involved in the engagement beginning with the initial planning and throughout the audit process?  | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 12. Has the audit firm rarely been found negligent in litigation against it – alleging inadequate audit performance?   | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 13. Are the engagement partner and senior manager make frequent visits to the audit site for technical review purposes?  | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 14. Are enough auditor resources assigned to the audit, and continuity of audit staff is strived for?  | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 15. Does evidence that the audit partner is supported by Quality Assurance processes and technical specialists?  | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 16. Do the partner(s) and manager(s) commit an appropriate amount of time to undertake the audit, to supervise staff and to meet directly with management and the audit committee?   | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 17. Does the audit partner discusses the audit plan with the Board/Audit Committee and explains the approach to key areas?   | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 18. Did the auditors identify opportunities and risks relevant to the entity and outcome of any regulatory review is discussed with the audit committee?   | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 19. Is there an effective working relationship between the external and internal auditors, as well as other advisors (e.g. Tax)?   | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 20. Where parts of the audit are performed by teams in multiple locations, the partner provided information about the technical skills, experience and objectivity of those auditors?  | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

**C. EXERCISES PROFESSIONAL SKEPTICISM**

<b>QUESTIONS</b>	<b>YES</b>	<b>NO</b>	<b>P</b>	<b>N/A</b>
21. Is there evidence that the audit team challenges, rather than rationalizes significant estimates, judgments and accounting policy choices made by management?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
22. Did the auditors rely on external experts where necessary, and appropriately considered quality of advice received?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
23. The partner inspires confidence, and his/her opinion is valued?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
24. Were discussion between the auditors and management on fraud risk, prevention and detection led at the appropriate level and were challenging and comprehensive?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
25. Is the auditor open in dealing with difficult situations?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
26. Did the auditor discuss sensitive issues candidly and professionally?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

**D. INDEPENDENCE AND OBJECTIVITY**

<b>QUESTIONS</b>	<b>YES</b>	<b>NO</b>	<b>P</b>	<b>N/A</b>
27. Is there a robust process to obtain approval for non-audit services?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
28. Does the audit partner communicate the nature of non-audit services, including the safeguards put in place to protect independence?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
29. Is it clear from the communications from the auditors that independence and objectivity have been achieved?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
30. Did the audit firm rotates the engagement partner in line with their own firm or commercial code?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
31. Did the fees charged by the auditors fairly reflect the nature and complexity of the issues of the entity?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
32. Does the auditor maintain a respectful but questioning approach throughout the audit?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
33. Is the relationship between auditors and management is appropriate, such that there is no perception that the auditors may lack, or appear to lack, the required degree of objectivity?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

**E. COMMUNICATIONS WITH THE BOARD/AUDIT COMMITTEE**

<b>QUESTIONS</b>	<b>YES</b>	<b>NO</b>	<b>P</b>	<b>N/A</b>
34. Does the engagement partner arrange regular meetings with the client’s key staff to identify issues of concern?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
35. Is there honest and complete dialogue between the engagement partner and the Board/Audit Committee?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
36. Is there timely and informative communication about current accounting and/or other developments?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
37. Are the Board/Audit Committee kept informed about progress of the audit and difficulties encountered?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
38. Is the engagement partner accessible to Board/Audit Committee?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

- 39. Communication focuses on key risks identified, how they were addressed and the conclusions reached, as well as the reasonableness of estimates, judgments and disclosures?
- 40. The audit partner provides insightful comments in 'in-committee' sessions with the Board/Audit Committee?
- 41. Is the audit plan communicated to the Audit Committee, which reflects a clear understanding of the entity?
- 42. The level of materiality applied by the auditors has been explained satisfactorily?
- 43. Are comments provided on a timely basis in relation to concerns over accounting treatment, estimates and financial reporting systems/processes?
- 44. In executive sessions, did the auditor discuss sensitive issues candidly and professionally (e.g., his/ her views on, including any concerns about, management's reporting processes; internal control over financial reporting (e.g., internal whistle blower policy); the quality of the company's financial management team)?

If you have any additional comments or suggestions on the quality external audit services provided by private audit firms other than mentioned above?

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## Appendix (B)

### DESCRIPTIVE STATISTICS

#### Frequency Table

##### Demographic Characteristics of Respondents:

###### gender

	Frequency	Percent	Valid Percent	Cumulative Percent
male	24	80	80	80
female	6	20	20	100
Valid Total	30	100	100	

###### Education

	Frequency	Percent	Valid Percent	Cumulative Percent
BA	12	40	40	40
ACCA	15	50	50	90
MSC	3	10	10	100
Valid Total	30	100	100	

###### Experience

	Frequency	Percent	Valid Percent	Cumulative Percent
less than 5 years	12	40	40	40
6-10 years	10	33.3	33.3	73.3
11-15 years	2	6.7	6.7	80
16-20 years	2	6.7	6.7	86.7
over 20 years	4	13.3	13.3	100
Valid Total	30	100	100	

###### Position

	Frequency	Percent	Valid Percent	Cumulative Percent
senior auditor	10	33.3	33.3	33.3
manager	10	33.3	33.3	66.7
head of the firm	10	33.3	33.3	100
Valid Total	30	100	100	

**A. QUALITY EXTERNAL AUDIT SERVICE**

	Frequency	Percent	Valid Percent	Cumulative Percent
yes	19	63	63	62
no	2	7	7	71
partially	5	17	17	92
not applicable	4	13	13	100
Valid Total	30	100	100	325

**B. QUALITY OF SERVICE AND SUFFICIENCY OF RESOURCES**

	Frequency	Percent	Valid Percent	Cumulative Percent
yes	16	53	53	58
not	5	17	17	57
partially	7	23	23	97
not applicable	2	7	7	100
Valid Total	30	100	100	

**C. EXERCISES PROFESSIONAL SKEPTICIS**

	Frequency	Percent	Valid Percent	Cumulative Percent
yes	18	60	60	64
no	2	7	7	72
partially	8	26	26	96
not applicable	2	7	7	100
Valid Total	30	100	100	

**D. INDEPENDENCE AND OBJECTIVITY**

	Frequency	Percent	Valid Percent	Cumulative Percent
yes	16	53	53	51
no	3	10	10	63
partially	9	30	30	96
not applicable	2	7	7	100
Valid Total	30	100	100	

**E. COMMUNICATIONS WITH THE BOARD/AUDIT COMMITTEE**

	Frequency	Percent	Valid Percent	Cumulative Percent
yes	18	60	60	60
no	2	7	7	66.7
partially	8	26	26	97
not applicable	2	7	7	100
Valid Total	30	100	100	

**Does the audit engagement team demonstrate the skills and experience necessary to address the company's areas of greatest financial reporting risk?**

	Frequency	Percent	Valid Percent	Cumulative Percent
yes	25	83.3	83.3	83.3
Valid partially	5	16.7	16.7	100.0
Total	30	100.0	100.0	

**Does the audit engagement team have access to appropriate specialists and/or national office resources during the audit?**

	Frequency	Percent	Valid Percent	Cumulative Percent
yes	14	46.7	46.7	46.7
no	2	6.7	6.7	53.3
Valid partially	11	36.7	36.7	90.0
not applicable	3	10.0	10.0	100.0
Total	30	100.0	100.0	

**Does the engagement team provide a sound risk assessment at the outset of the audit, including an assessment of fraud risk?**

	Frequency	Percent	Valid Percent	Cumulative Percent
yes	19	63.3	63.3	63.3
no	1	3.3	3.3	66.7
Valid partially	8	26.7	26.7	93.3
not applicable	2	6.7	6.7	100.0
Total	30	100.0	100.0	

**During the engagement the auditor demonstrated a good understanding of the company's business, industry, and the impact of the economic environment on the company?**

	Frequency	Percent	Valid Percent	Cumulative Percent
yes	25	83.3	83.3	83.3
no	2	6.7	6.7	90.0
Valid partially	3	10.0	10.0	100.0
Total	30	100.0	100.0	

**Did the auditor identified and responded to any auditing and accounting issues that arose from changes in the company or its industry, or changes in applicable accounting and auditing requirements?**

	Frequency	Percent	Valid Percent	Cumulative Percent
yes	26	86.7	86.7	86.7
no	2	6.7	6.7	93.3
Valid partially	2	6.7	6.7	100.0
Total	30	100.0	100.0	

**Are there statutory and regulatory independence requirements for auditors?**

	Frequency	Percent	Valid Percent	Cumulative Percent
yea	23	76.7	76.7	76.7
no	1	3.3	3.3	80.0
Valid partially	5	16.7	16.7	96.7
not applicable	1	3.3	3.3	100.0
Total	30	100.0	100.0	

**Does the firm and auditor independent of the issuer and in the case of mutual funds, independent of the investment company complex?**

	Frequency	Percent	Valid Percent	Cumulative Percent
yes	19	63.3	63.3	63.3
no	1	3.3	3.3	66.7
Valid partially	2	6.7	6.7	73.3
not applicable	8	26.7	26.7	100.0
Total	30	100.0	100.0	

**Did the auditor advises the audit committee of any services or relationships that reasonably can be thought to bear on the firm's independence?**

	Frequency	Percent	Valid Percent	Cumulative Percent
yes	12	40.0	40.0	40.0
no	4	13.3	13.3	53.3
Valid partially	9	30.0	30.0	83.3
not applicable	5	16.7	16.7	100.0
Total	30	100.0	100.0	

**Does the auditor demonstrated integrity, objectivity and professional skepticism. For example, the use of estimates and judgments in the financial statements and related disclosures (e.g., fair value, impairment) continues to be an important component of**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid yes	24	80.0	80.0	80.0
Valid no	4	13.3	13.3	93.3
Valid partially	2	6.7	6.7	100.0
Total	30	100.0	100.0	

**Does the auditor evaluate the methods and assumptions used and challenge, where necessary, management's assumptions and application of accounting policies, including the completeness and transparency of the related disclosures?**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid yes	27	90.0	90.0	90.0
Valid partially	3	10.0	10.0	100.0
Total	30	100.0	100.0	

**Does the auditor clearly articulate the processes followed and summarize the evidence used to evaluate the significant estimates and judgments, and to form an opinion whether the financial statements, taken as a whole, were fairly presented in accordance**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid yes	25	83.3	83.3	83.3
Valid partially	5	16.7	16.7	100.0
Total	30	100.0	100.0	

**Does the auditor essential for the audit committee to obtain the information it needs to fulfill its responsibilities to oversee the company's financial reporting processes?**

	Frequency	Percent	Valid Percent	Cumulative Percent
yes	16	53.3	53.3	53.3
no	1	3.3	3.3	56.7
Valid partially	8	26.7	26.7	83.3
not applicable	5	16.7	16.7	100.0
Total	30	100.0	100.0	

**Did the auditor communicated with the audit committee as significant issues arisen, to ensure that committee has a complete understanding of the stages of the audit cycle (e.g., planning, completion of final procedures, and, if applicable, completion of i**

	Frequency	Percent	Valid Percent	Cumulative Percent
yes	14	46.7	46.7	46.7
not	4	13.3	13.3	60.0
Valid partially	8	26.7	26.7	86.7
not applicable	4	13.3	13.3	100.0
Total	30	100.0	100.0	

**Was the audit plan appropriate for the auditee given risks known to the Board/Audit Committee?**

	Frequency	Percent	Valid Percent	Cumulative Percent
yes	16	53.3	53.3	53.3
Valid partially	13	43.3	43.3	96.7
not applicable	1	3.3	3.3	100.0
Total	30	100.0	100.0	

**Have the lead engagement partner and audit team the necessary knowledge and skills (company-specific, industry, accounting, auditing) to meet the company's audit requirements and the right resources dedicated to the audit?**

	Frequency	Percent	Valid Percent	Cumulative Percent
yes	28	93.3	93.3	93.3
Valid partially	2	6.7	6.7	100.0
Total	30	100.0	100.0	

**Has the audit firm financial audit manuals, quality control manuals and audit works were conducted in accordance with it?**

	Frequency	Percent	Valid Percent	Cumulative Percent
yes	21	70.0	70.0	70.0
no	1	3.3	3.3	73.3
Valid partially	7	23.3	23.3	96.7
not applicable	1	3.3	3.3	100.0
Total	30	100.0	100.0	

**Is the firm established policies and procedures designed to provide it with reasonable assurance that the firm and its personnel comply with relevant ethical requirements?**

	Frequency	Percent	Valid Percent	Cumulative Percent
yes	26	86.7	86.7	86.7
no	1	3.3	3.3	90.0
Valid partially	3	10.0	10.0	100.0
Total	30	100.0	100.0	

**Did the firm Perform engagements in accordance with professional standards and applicable legal and regulatory requirements; and reports that are appropriate in the circumstances?**

	Frequency	Percent	Valid Percent	Cumulative Percent
yes	28	93.3	93.3	93.3
Valid partially	2	6.7	6.7	100.0
Total	30	100.0	100.0	

**Did the firm establish a monitoring process designed to provide it with reasonable assurance that the policies and procedures relating to the system of quality control are relevant, adequate, and operating effectively?**

	Frequency	Percent	Valid Percent	Cumulative Percent
yes	18	60.0	60.0	60.0
no	1	3.3	3.3	63.3
Valid partially	10	33.3	33.3	96.7
not applicable	1	3.3	3.3	100.0
Total	30	100.0	100.0	

**Is the audit firm makes extensive use of statistical techniques when undertaking the audit and operates to the highest standards of integrity?**

	Frequency	Percent	Valid Percent	Cumulative Percent
yes	12	40.0	40.0	40.0
no	7	23.3	23.3	63.3
Valid partially	11	36.7	36.7	100.0
Total	30	100.0	100.0	

**Does the audit approach clearly demonstrate the extent to which the underlying control environment is considered and relied upon including how (rotation, reliance and re-testing, etc.) and have business risks been properly considered when assessing audit**

	Frequency	Percent	Valid Percent	Cumulative Percent
yes	15	50.0	50.0	50.0
no	1	3.3	3.3	53.3
Valid partially	13	43.3	43.3	96.7
not applicable	1	3.3	3.3	100.0
Total	30	100.0	100.0	

**Has the audit firm a training program for auditors and appropriate training has been given to auditors?**

	Frequency	Percent	Valid Percent	Cumulative Percent
yes	17	56.7	56.7	56.7
no	6	20.0	20.0	76.7
Valid partially	6	20.0	20.0	96.7
not applicable	1	3.3	3.3	100.0
Total	30	100.0	100.0	

**An engagement has been planned and performed in accordance with professional standards and whether reports issued are appropriate in the circumstances?**

	Frequency	Percent	Valid Percent	Cumulative Percent
yes	27	90.0	90.0	90.0
Valid partially	3	10.0	10.0	100.0
Total	30	100.0	100.0	

**Is the engagement partner actively involved in the engagement beginning with the initial planning and throughout the audit process?**

	Frequency	Percent	Valid Percent	Cumulative Percent
yes	16	53.3	53.3	53.3
no	2	6.7	6.7	60.0
partially	12	40.0	40.0	100.0
Total	30	100.0	100.0	

**Has the audit firm rarely been found negligent in litigation against it – alleging inadequate audit performance?**

	Frequency	Percent	Valid Percent	Cumulative Percent
yes	2	6.7	6.7	6.7
no	22	73.3	73.3	80.0
partially	2	6.7	6.7	86.7
not applicable	4	13.3	13.3	100.0
Total	30	100.0	100.0	

**Are the engagement partner and senior manager make frequent visits to the audit site for technical review purposes?**

	Frequency	Percent	Valid Percent	Cumulative Percent
yes	8	26.7	26.7	26.7
no	6	20.0	20.0	46.7
partially	15	50.0	50.0	96.7
not applicable	1	3.3	3.3	100.0
Total	30	100.0	100.0	

**Are enough auditor resources assigned to the audit, and continuity of audit staff is strived for?**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid yes	17	56.7	56.7	56.7
Valid no	1	3.3	3.3	60.0
Valid partially	12	40.0	40.0	100.0
Total	30	100.0	100.0	

**Does evidence that the audit partner is supported by Quality Assurance processes and technical specialists?**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid yes	15	50.0	50.0	50.0
Valid no	3	10.0	10.0	60.0
Valid partially	11	36.7	36.7	96.7
Valid not applicable	1	3.3	3.3	100.0
Total	30	100.0	100.0	

**Do the partner(s) and manager(s) commit an appropriate amount of time to undertake the audit, to supervise staff and to meet directly with management and the audit committee?**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid yes	22	73.3	73.3	73.3
Valid no	3	10.0	10.0	83.3
Valid partially	5	16.7	16.7	100.0
Total	30	100.0	100.0	

**Is the audit partner discusses the audit plan with the Board/Audit Committee and explains the approach to key areas?**

	Frequency	Percent	Valid Percent	Cumulative Percent
yes	13	43.3	43.3	43.3
no	8	26.7	26.7	70.0
Valid partially	7	23.3	23.3	93.3
not applicable	2	6.7	6.7	100.0
Total	30	100.0	100.0	

**Are the auditors identified opportunities and risks relevant to the entity and outcome of any regulatory review is discussed with the audit committee?**

	Frequency	Percent	Valid Percent	Cumulative Percent
yes	13	43.3	43.3	43.3
no	9	30.0	30.0	73.3
Valid partially	5	16.7	16.7	90.0
not applicable	3	10.0	10.0	100.0
Total	30	100.0	100.0	

**Is there an effective working relationship between the external and internal auditors, as well as other advisors (e.g. Tax)?**

	Frequency	Percent	Valid Percent	Cumulative Percent
yes	16	53.3	53.3	53.3
no	2	6.7	6.7	60.0
Valid partially	11	36.7	36.7	96.7
not applicable	1	3.3	3.3	100.0
Total	30	100.0	100.0	

**Where parts of the audit are performed by teams in multiple locations, the partner provided information about the technical skills, experience and objectivity of those auditors?**

	Frequency	Percent	Valid Percent	Cumulative Percent
yes	19	63.3	63.3	63.3
partially	10	33.3	33.3	96.7
not applicable	1	3.3	3.3	100.0
Total	30	100.0	100.0	

**Is there evidence that the audit team challenges, rather than rationalizes significant estimates, judgments and accounting policy choices made by management?**

	Frequency	Percent	Valid Percent	Cumulative Percent
yes	14	46.7	46.7	46.7
no	3	10.0	10.0	56.7
partially	12	40.0	40.0	96.7
not applicable	1	3.3	3.3	100.0
Total	30	100.0	100.0	

**Did the auditors relied on external experts where necessary, and appropriately considered quality of advice received?**

	Frequency	Percent	Valid Percent	Cumulative Percent
yes	15	50.0	50.0	50.0
no	3	10.0	10.0	60.0
partially	9	30.0	30.0	90.0
not applicable	3	10.0	10.0	100.0
Total	30	100.0	100.0	

**The partner inspires confidence, and his/her opinion is valued?**

	Frequency	Percent	Valid Percent	Cumulative Percent
yes	17	56.7	56.7	56.7
no	3	10.0	10.0	66.7
Valid partially	9	30.0	30.0	96.7
not applicable	1	3.3	3.3	100.0
Total	30	100.0	100.0	

**Were discussion between the auditors and management on fraud risk, prevention and detection led at the appropriate level and were challenging and comprehensive?**

	Frequency	Percent	Valid Percent	Cumulative Percent
yes	16	53.3	53.3	53.3
no	3	10.0	10.0	63.3
Valid partially	10	33.3	33.3	96.7
not applicable	1	3.3	3.3	100.0
Total	30	100.0	100.0	

**Is the auditor open in dealing with difficult situations?**

	Frequency	Percent	Valid Percent	Cumulative Percent
yes	25	83.3	83.3	83.3
no	1	3.3	3.3	86.7
Valid partially	4	13.3	13.3	100.0
Total	30	100.0	100.0	

**Did the auditor discuss sensitive issues candidly and professionally?**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid yes	29	96.7	96.7	96.7
Valid no	1	3.3	3.3	100.0
Total	30	100.0	100.0	

**Is there a robust process to obtain approval for non-audit services?**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid yes	9	30.0	30.0	30.0
Valid no	6	20.0	20.0	50.0
Valid partially	12	40.0	40.0	90.0
Valid not applicable	3	10.0	10.0	100.0
Total	30	100.0	100.0	

**Is the audit partner communicates the nature of non-audit services, including the safeguards put in place to protect independence?**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid yes	11	36.7	36.7	36.7
Valid no	2	6.7	6.7	43.3
Valid partially	15	50.0	50.0	93.3
Valid not applicable	2	6.7	6.7	100.0
Total	30	100.0	100.0	

**Is it clear from the communications from the auditors that independence and objectivity have been achieved?**

	Frequency	Percent	Valid Percent	Cumulative Percent
yes	21	70.0	70.0	70.0
Valid partially	9	30.0	30.0	100.0
Total	30	100.0	100.0	

**Did the audit firm rotate the engagement partner in line with their own firm or commercial code?**

	Frequency	Percent	Valid Percent	Cumulative Percent
yes	12	40.0	40.0	40.0
no	4	13.3	13.3	53.3
Valid partially	11	36.7	36.7	90.0
not applicable	3	10.0	10.0	100.0
Total	30	100.0	100.0	

**Did the fees charged by the auditors fairly reflect the nature and complexity of the issues of the entity?**

	Frequency	Percent	Valid Percent	Cumulative Percent
yes	11	36.7	36.7	36.7
no	6	20.0	20.0	56.7
Valid partially	12	40.0	40.0	96.7
not applicable	1	3.3	3.3	100.0
Total	30	100.0	100.0	

**Is the auditor maintains a respectful but questioning approach throughout the audit?**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid yes	27	90.0	90.0	90.0
Valid no	2	6.7	6.7	96.7
Valid partially	1	3.3	3.3	100.0
Total	30	100.0	100.0	

**Is the relationship between auditors and management is appropriate, such that there is no perception that the auditors may lack, or appear to lack, the required degree of objectivity?**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid yes	22	73.3	73.3	73.3
Valid no	1	3.3	3.3	76.7
Valid partially	7	23.3	23.3	100.0
Total	30	100.0	100.0	

**Is the engagement partner arranges regular meetings with the client's key staff to identify issues of concern?**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid yes	16	53.3	53.3	53.3
Valid no	6	20.0	20.0	73.3
Valid partially	7	23.3	23.3	96.7
Valid not applicable	1	3.3	3.3	100.0
Total	30	100.0	100.0	

**Is there honest and complete dialogue between the engagement partner and the Board/Audit Committee?**

	Frequency	Percent	Valid Percent	Cumulative Percent
yes	13	43.3	43.3	43.3
no	5	16.7	16.7	60.0
Valid partially	10	33.3	33.3	93.3
not applicable	2	6.7	6.7	100.0
Total	30	100.0	100.0	

**Is there timely and informative communication about current accounting and/or other developments?**

	Frequency	Percent	Valid Percent	Cumulative Percent
yes	19	63.3	63.3	63.3
no	3	10.0	10.0	73.3
Valid partially	8	26.7	26.7	100.0
Total	30	100.0	100.0	

**Are the Board/Audit Committee kept informed about progress of the audit and difficulties encountered?**

	Frequency	Percent	Valid Percent	Cumulative Percent
yes	20	66.7	66.7	66.7
Valid partially	10	33.3	33.3	100.0
Total	30	100.0	100.0	

**Is the engagement partner accessible to Board/Audit Committee?**

	Frequency	Percent	Valid Percent	Cumulative Percent
yes	19	63.3	63.3	63.3
no	1	3.3	3.3	66.7
Valid partially	10	33.3	33.3	100.0
Total	30	100.0	100.0	

**Communication focuses on key risks identified, how they were addressed and the conclusions reached, as well as the reasonableness of estimates, judgments and disclosures?**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid yes	19	63.3	63.3	63.3
Valid no	1	3.3	3.3	66.7
Valid partially	10	33.3	33.3	100.0
Total	30	100.0	100.0	

**The audit partner provides insightful comments in 'in-committee' sessions with the Board/Audit Committee?**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid yes	15	50.0	50.0	50.0
Valid partially	12	40.0	40.0	90.0
Valid not applicable	3	10.0	10.0	100.0
Total	30	100.0	100.0	

**Is the audit plan communicated to the Audit Committee, which reflects a clear understanding of the entity?**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid yes	14	46.7	46.7	46.7
Valid no	3	10.0	10.0	56.7
Valid partially	10	33.3	33.3	90.0
Valid not applicable	3	10.0	10.0	100.0
Total	30	100.0	100.0	

**The level of materiality applied by the auditors has been explained satisfactorily?**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid yes	14	46.7	46.7	46.7
Valid no	3	10.0	10.0	56.7
Valid partially	13	43.3	43.3	100.0
Total	30	100.0	100.0	

**Are comments provided on a timely basis in relation to concerns over accounting treatment, estimates and financial reporting systems/processes?**

	Frequency	Percent	Valid Percent	Cumulative Percent
yes	26	86.7	86.7	86.7
partially	3	10.0	10.0	96.7
not applicable	1	3.3	3.3	100.0
Total	30	100.0	100.0	

**In executive sessions, did the auditor discuss sensitive issues candidly and professionally (e.g., his/ her views on, including any concerns about, management's reporting processes; internal control over financial reporting (e.g., internal whistle blower**

	Frequency	Percent	Valid Percent	Cumulative Percent
yes	23	76.7	76.7	76.7
no	1	3.3	3.3	80.0
partially	5	16.7	16.7	96.7
not applicable	1	3.3	3.3	100.0
Total	30	100.0	100.0	

## Appendix (C)

### P-Plot Test

/VARIABLES=Gender, Education, Experience & Position

/NOLOG

/STANDARDIZE

/TYPE=P-P

/FRACTION=BLOM

/TIES=MEAN

/DIST=NORMAL.

### Model Description

Model Name		MOD_1	
	1	Gender	
	2	Education	
Series or Sequence	3	Experience	
	4	Position	
Transformation		None	
Non-Seasonal Differencing			0
Seasonal Differencing			0
Length of Seasonal Period		No periodicity	
Standardization		Applied	
	Type	Normal	
Distribution	Location	Estimated	
	Scale	Estimated	
Fractional Rank Estimation Method		Blom's	
Rank Assigned to Ties		Mean rank of tied values	

Applying the model specifications from MOD\_1

### Case Processing Summary

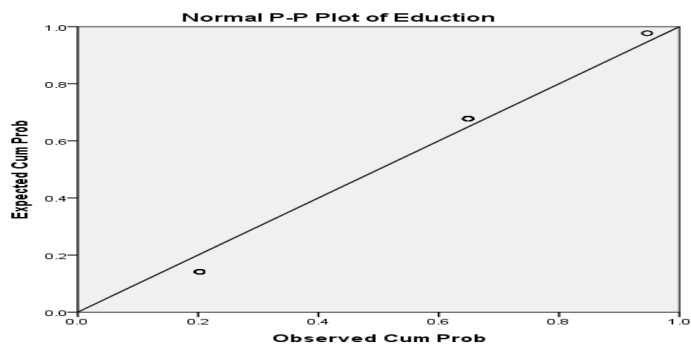
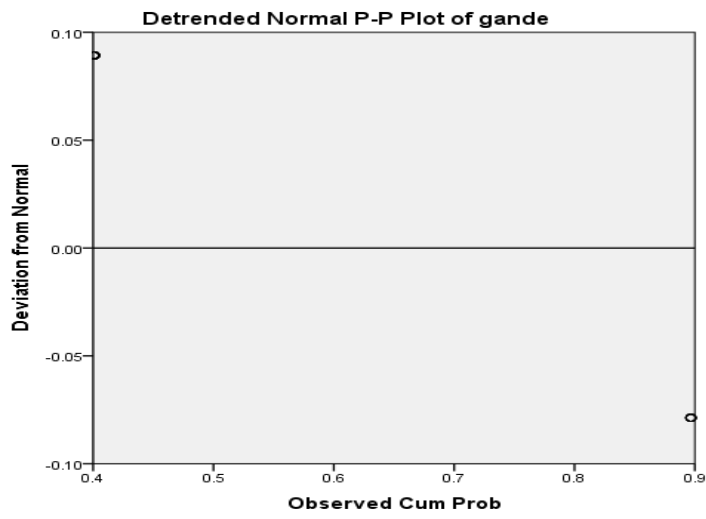
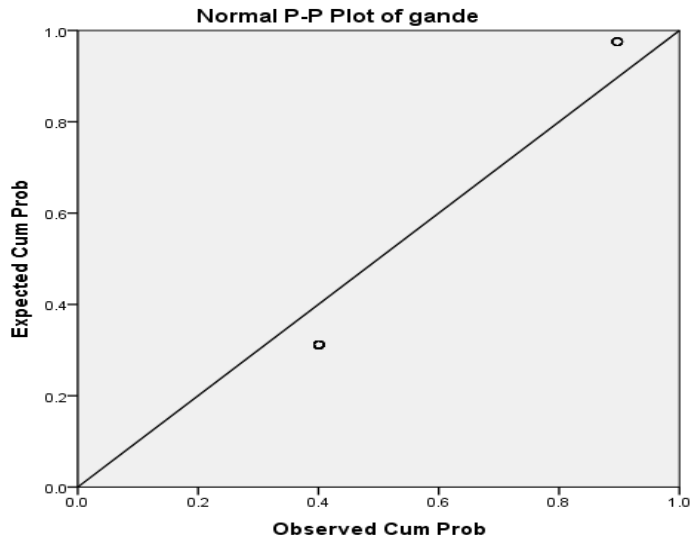
		gander	Education	Experience	Position
Series or Sequence Length		30	30	30	30
Number of Missing Values in the Plot	User-Missing	0	0	0	0
	System-Missing	0	0	0	0

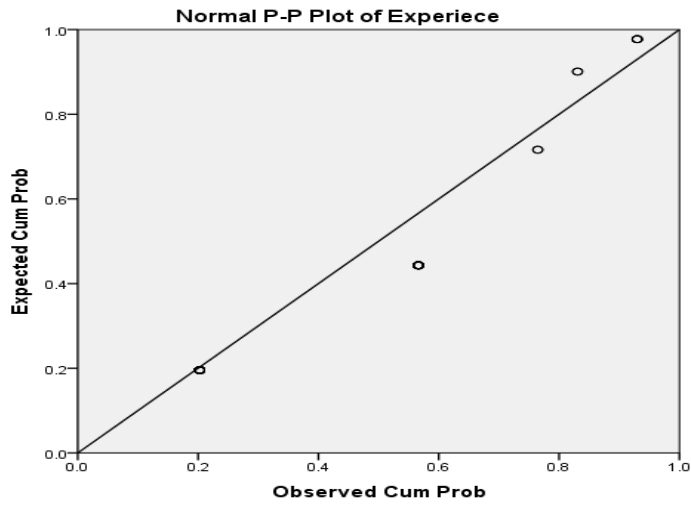
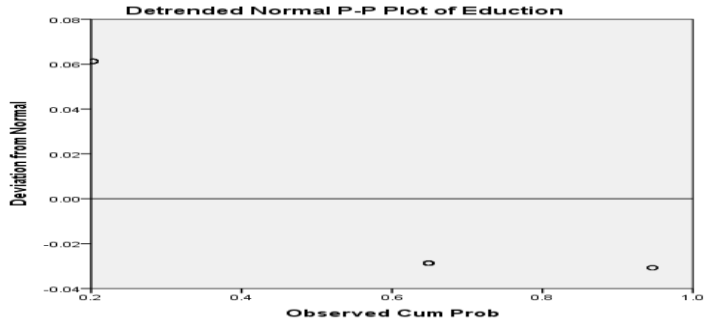
The cases are unweighted.

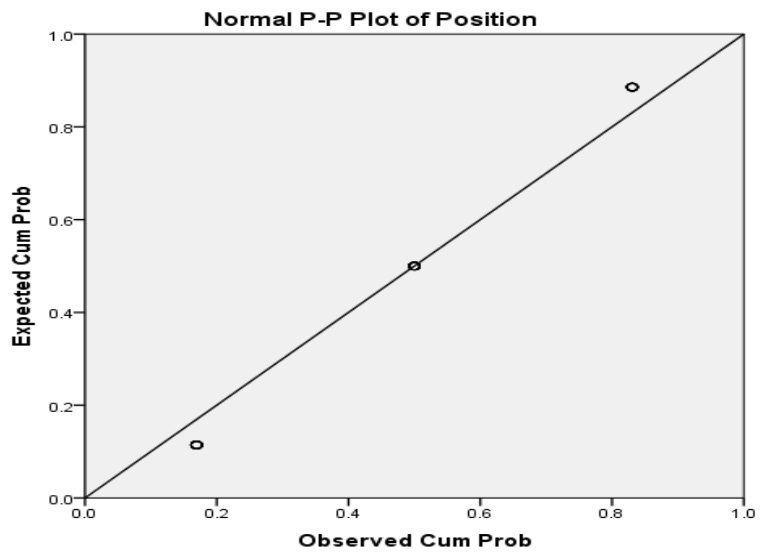
#### Estimated Distribution Parameters

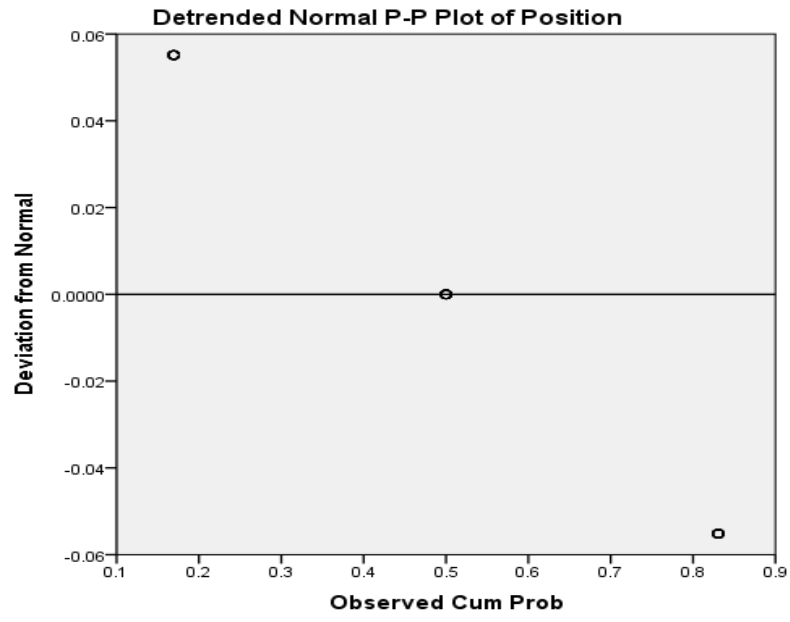
		gander	Education	Experience	Position
Normal Distribution	Location	.00	.00	.00	.00
	Scale	1.000	1.000	1.000	1.000

The cases are unweighted.









## Appendix (D)

### Crosstabs Education\_mean \* gander

Crosstab

		gande		Total
		Male	female	
Education_mean	Count	0	6	6
	2.17 % within Education_mean	0.0%	100.0%	100.0%
	% of Total	0.0%	20.0%	20.0%
	Std. Residual	-2.2	4.4	
	Count	24	0	24
	2.83 % within Education_mean	100.0%	0.0%	100.0%
% of Total	80.0%	0.0%	80.0%	
	Std. Residual	1.1	-2.2	
Total	Count	24	6	30
	% within Education_mean	80.0%	20.0%	100.0%
	% of Total	80.0%	20.0%	100.0%

### Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)	Exact Sig. (2-sided)	Exact Sig. (1-sided)
Pearson Chi-Square	30.000 <sup>a</sup>	1	.000		
Continuity Correction <sup>b</sup>	24.076	1	.000		
Likelihood Ratio	30.024	1	.000		
Fisher's Exact Test				.000	.000
Linear-by-Linear Association	29.000	1	.000		
N of Valid Cases	30				

a. 3 cells (75.0%) have expected count less than 5. The minimum expected count is 1.20.

b. Computed only for a 2x2 table

### Directional Measures

			Value
Nominal by Interval	Eta	Education_mean Dependent	1.000
		gande Dependent	1.000

### Symmetric Measures

		Value	Approx. Sig.
Nominal by Nominal	Contingency Coefficient	.707	.000
N of Valid Cases		30	

a. Not assuming the null hypothesis.

b. Using the asymptotic standard error assuming the null hypothesis.

## Education\_mean \* Education

Crosstab

		Education			Total
		BA	ACCA	MSC	
Education_mean	Count	5	1	0	6
	2.17 % within Education_mean	83.3%	16.7%	0.0%	100.0%
	% of Total	16.7%	3.3%	0.0%	20.0%
	Std. Residual	1.7	-1.2	-.8	
2.83	Count	7	14	3	24
	% within Education_mean	29.2%	58.3%	12.5%	100.0%
	% of Total	23.3%	46.7%	10.0%	80.0%
	Std. Residual	-.8	.6	.4	
Total	Count	12	15	3	30
	% within Education_mean	40.0%	50.0%	10.0%	100.0%
	% of Total	40.0%	50.0%	10.0%	100.0%

Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	5.938 <sup>a</sup>	2	.051
Likelihood Ratio	6.376	2	.041
Linear-by-Linear Association	5.030	1	.025
N of Valid Cases	30		

a. 4 cells (66.7%) have expected count less than 5. The minimum expected count is .60.

### Directional Measures

		Value
Nominal by Interval	Eta	Education_mean Dependent .445
		Education Dependent .416

**Symmetric Measures**

		Value	Approx. Sig.
Nominal by Nominal	Contingency Coefficient	.406	.051
N of Valid Cases		30	

- a. Not assuming the null hypothesis.
- b. Using the asymptotic standard error assuming the null hypothesis.

**Education\_mean \* Experiiece**

**Crosstab**

		Experiiece					Total
		female	6-10 years	11-15 years	16-20 years	over 20 years	
Education_mean	Count	4	2	0	0	0	6
	% within Education_mean	66.7%	33.3%	0.0%	0.0%	0.0%	100.0%
	% of Total	13.3%	6.7%	0.0%	0.0%	0.0%	20.0%
	Std. Residual	1.0	.0	-.6	-.6	-.9	
2.83	Count	8	8	2	2	4	24
	% within Education_mean	33.3%	33.3%	8.3%	8.3%	16.7%	100.0%
	% of Total	26.7%	26.7%	6.7%	6.7%	13.3%	80.0%
	Std. Residual	-.5	.0	.3	.3	.4	

	Count	12	10	2	2	4	30
Total	% within Education_mean	40.0%	33.3%	6.7%	6.7%	13.3%	100.0%
	% of Total	40.0%	33.3%	6.7%	6.7%	13.3%	100.0%

**Chi-Square Tests**

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	3.333 <sup>a</sup>	4	.504
Likelihood Ratio	4.740	4	.315
Linear-by-Linear Association	2.876	1	.090
N of Valid Cases	30		

a. 8 cells (80.0%) have expected count less than 5. The minimum expected count is .40.

**Directional Measures**

			Value
Nominal by Interval	Eta	Education_mean Dependent	.333
		Experiece Dependent	.315

**Symmetric Measures**

		Value	Approx. Sig.
Nominal by Nominal	Contingency Coefficient	.316	.504
N of Valid Cases		30	

a. Not assuming the null hypothesis.

b. Using the asymptotic standard error assuming the null hypothesis.

## Education\_mean \* Position

Crosstab

		Position			Total
		female	manager	head of the firm	
Education_mean	Count	4	2	0	6
	2.17 % within Education_mean	66.7%	33.3%	0.0%	100.0%
	% of Total	13.3%	6.7%	0.0%	20.0%
	Std. Residual	1.4	.0	-1.4	
	Count	6	8	10	24
	2.83 % within Education_mean	25.0%	33.3%	41.7%	100.0%
% of Total	20.0%	26.7%	33.3%	80.0%	
Std. Residual	-.7	.0	.7		
Total	Count	10	10	10	30
	% within Education_mean	33.3%	33.3%	33.3%	100.0%
	% of Total	33.3%	33.3%	33.3%	100.0%

Chi-Square Tests

	Value	Df	Asymp. Sig. (2-sided)
Pearson Chi-Square	5.000 <sup>a</sup>	2	.082
Likelihood Ratio	6.556	2	.038
Linear-by-Linear Association	4.833	1	.028
N of Valid Cases	30		

a. 3 cells (50.0%) have expected count less than 5. The minimum expected count is 2.00.

Directional Measures

			Value
Nominal by Interval	Eta	Education_mean Dependent	.408
		Position Dependent	.408

Symmetric Measures

		Value	Approx. Sig.
Nominal by Nominal	Contingency Coefficient	.378	.082
N of Valid Cases		30	

a. Not assuming the null hypothesis.

b. Using the asymptotic standard error assuming the null hypothesis.

## Appendix (E)

### Reliability Test

/VARIABLES=Gender, Education, Experience and Position

/SCALE ('ALL VARIABLES') ALL

/MODEL=ALPHA

/STATISTICS=DESCRIPTIVE SCALE ANOVA

/SUMMARY=MEANS.

### Scale: ALL VARIABLES

#### Case Processing Summary

		N	%
Cases	Valid	30	100.0
	Excluded <sup>a</sup>	0	.0
	Total	30	100.0

a. Listwise deletion based on all variables in the procedure.

#### Reliability Statistics

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.591	.372	4

#### Item Statistics

	Mean	Std. Deviation	N
gender	.20	.407	30
Education	2.70	.651	30
Experience	2.20	1.400	30
Position	2.00	.830	30

#### Summary Item Statistics

	Mean	Minimum	Maximum	Range	Maximum / Minimum	Variance	N of Items
Item Means	1.775	.200	2.700	2.500	13.500	1.189	4

**Scale Statistics**

Mean	Variance	Std. Deviation	N of Items
7.10	5.817	2.412	4

**ANOVA**

	Sum of Squares	df	Mean Square	F	Sig
Between People	42.175	29	1.454		
Between Items	107.025	3	35.675	60.004	.000
Within People	Residual	51.725	87	.595	
Total	158.750	90	1.764		
Total	200.925	119	1.688		

*Grand Mean = 1.78*

## Appendix (F)

### List of all Grades ‘A’ private audit firms exist in Ethiopia

S. No.	Grades ‘A’ audit firms
1	<a href="#">A.A. Bromhead and Co.</a> Audit Firm: A.A. Bromhead and Co. Auditor: Mr. A.A. Bromhead
2	<a href="#">A.W. Thomas and Co.</a> Audit Firm: A.W. Thomas and Co. Auditor: Mr. A.W. Thomas, Ato Melaku Abeje
3	<a href="#">Asrat Gezahegn and Berbersa Audit Partnership</a> Audit Firm: Asrat Gezahegn and Berbersa Audit Partnership Auditor: Ato Asrat Bekele, Ato Gezahegn Worku, Ato Berbersa Demisse, Ato Sefa Abdella
4	<a href="#">Getachew Kasaye and Co.</a> Audit Firm: Getachew Kasaye and Co. Auditor: Ato Getachew Kasaye
5	<a href="#">Girma Tesfaye and Fasil Audit partner partnership</a> Audit Firm: Girma Tesfaye and Fasil Audit partner partnership Auditor: Ato Girma Tesfaye, Ato Fasil Hailu
6	<a href="#">H.S.T and Company</a> Audit Firm: H.S.T and Company Auditor: Ato Solomon Gizaw, Ato Tekeste Gebru
7	<a href="#">Kokeb Moges and Melkamu Belete Audit General Partenership</a> Audit Firm: Kokeb Moges and Melkamu Belete Audit General Partenership Auditor: Ato Kokeb Moges, Ato Melkamu Belete
8	<a href="#">T.M.S Plus</a> Audit Firm: T.M.S Plus Auditor: Ato Tafese Fremnatos
9	<a href="#">TAY and Co.</a> Audit Firm: TAY and Co. Auditor: Ato Alemayehu Kasa, Ato Yeheyes Bekele, Ato Tesfa Tadesse
10	<a href="#">Zemedhun &amp; Company</a> Audit Firm: Zemedhun & Company Auditor: Ato Zemedhun Adane