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Addis Ababa University
College of Business & Economics
Department of Accounting & Finance
Graduate Program

The Effect of the Directive “SBB/86/2023-Appointment of External Auditor of Bank” on Auditors Attributes Towards Audit Quality

By

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**A Thesis Submitted to the College of Business and Economics
Department of Accounting and Finance in Partial Fulfillment of the
Requirements for the Award of the Degree of Master of Science in
Accounting and Finance**

Advisor: Degefe Duressa (PhD)

June 2024

Addis Ababa, Ethiopia

Statement of Declaration

I, Eyob Demesew, declare that this thesis is my own work and that, to the best of my knowledge and belief, it contains no material previously published or written by another person, except where due acknowledgement has been made in the text. I confirm that no part of the material presented in this thesis has previously been submitted by me or any other person for a degree in this or any other institution.

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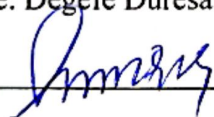
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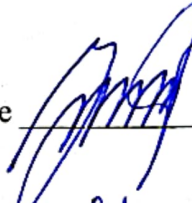
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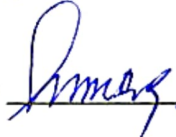
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Acknowledgments

First of all, I want to convey my heartfelt gratitude to Lord Jesus Christ and the Virgin Mary for enabling the circumstances that allowed me to participate in the MSE program and finish this thesis. I am deeply thankful to my supervisor, Dr. Degefe Duresa, for providing invaluable direction and input throughout the process of preparing this thesis.

I would like to offer a special thanks to my family particularly my mom Addisalem Abebe, my dad Demesew Moges, My brothers Kidus Elias, Yonas Demesew, Biniyam Demesew and Demelash Teklu for their overall support in both morally and economically in the accomplishment of my life and my education.

Finally, I would like to thank the staff of HST, Getachew Kasaye, MSE, TAY, and Tewodros & Degefa Audit Partnership firm and staffs of Zemen Bank, Abysinia Bank, Hibret Bank, Awash Bank, Wegagen Bank, Nib Bank, Oromia Bank, Amhara Bank and Addis Bank who have been sacrificing their time in responding to my questionnaires.

Eyob Demesew Moges

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List of Abbreviations

NBE	National Bank of Ethiopia
AABE	Accounting and Auditing Board of Ethiopia
ACCA	Association of Chartered Certified Accountants
AICPA	American Institute of Certified Public Accountants
CPA	Certified Public Accountant
FCIB	Federal Crime Investigation Bureau
FRC	Financial reporting council
IAASB	International Auditing and Assurance Standards Board
IAESB	International Accounting Education Standards Board
IASB	International Accounting Standard Board
IESBA	International Ethics Standards Board for Accountants
IFAC	International Federation of Accountants
IFRS	International Financial Reporting Standards
PCAOB	Public Company Accounting Oversight Board
INTOSA	International Organization of Supreme Audit Institutions
ISA	International Standards on Auditing
ISQC	International Standard on Quality Control
NGO	Non-Governmental Organizations
OFAG	Office of the Federal Auditor General
SEC	Securities and Exchange Commission
SME	Small and Medium Enterprises
SOX	Sarbanes-Oxley Act
SPSS	Statistical Package for Social Sciences
SD	Standard Deviation

Abstract

The purpose of this study is to show and examine the effect of the new directive SBB/86/2023 issued by the National Bank of Ethiopia on the external audit quality of banks. The study used primary data collected from bank staffs, external senior auditors, audit managers, and audit partners through closed-ended Likert scale questionnaire. A quantitative explanatory research design was employed, collecting data through questionnaires from auditors, bank staff, and other stakeholders. The research evaluated the directive's impact on three dimensions of audit quality: auditor independence and objectivity, auditor competence and qualifications, and audit process and procedures. The Statistical analyses included descriptive statistics, reliability tests, validity test, normality test, correlation, and regression modeling. The results indicated the new directive positively and significantly influenced all three audit quality aspects. Specifically, it enhanced auditor independence/objectivity ($\beta=0.462$, $p<0.001$), improved auditor competence/qualifications ($\beta=0.280$, $p<0.001$), and strengthened audit processes/procedures ($\beta=0.216$, $p<0.001$). The regression model explained 69.3% of the variance in the directive's effect on overall audit quality. The findings suggest the new regulatory requirements from the National Bank of Ethiopia have been effective in promoting higher audit quality standards within the Ethiopian banking sector. Implementation of the expanded auditing guidelines has reinforced auditor independence, boosted auditor expertise, and driven more rigorous audit execution, thereby increasing transparency and credibility of bank financial reporting. The study suggests that the National Bank of Ethiopia (NBE) and AABE need to place greater emphasis on auditors' independence and objectivity, competence and qualifications, and audit processes and procedures quality when revising or introducing directives related to conducting external audit of banks. The study also suggests the NBE need to take considerations and greater emphasis on directives requirement to outsource System/IT audit activities effect since outsourcing IT audit work to other vendors adds cost and brings potential risks around maintaining audit quality, independence, data security and confidentiality when third parties are involved. Furthermore, the study suggests NBE need to consider the effect of lacking in conformity of the directives with international accounting and auditing standards like IFRS standards, ISA standards, Capital market proclamations, and other accounting & auditing regulations and standards.

Key words: National Bank of Ethiopia, Auditing & Accounting Board of Ethiopia, Audit Quality, Independence, Objectivity, Competence, Qualifications, Process, Procedure.

Chapter One

1.1. Introduction/Background of the Study

The banking sector plays a crucial role in the economy of any country. As banks are entrusted with the management of public funds and other financial resources, it is essential that they maintain high levels of transparency and accountability in their financial reporting. External audits of banks are a critical component of ensuring the accuracy and reliability of financial reporting.

In Ethiopia, the National Bank of Ethiopia (NBE) is the regulatory body responsible for overseeing the banking sector. In recent years, the NBE has introduced several regulatory measures aimed at enhancing the quality of financial reporting and strengthening the external audit function in the banking sector.

One such measure is the new directive SBB/86/2023 Manner of Conducting External Audit of a Bank by NBE, which was issued in 2023. The new directive sets out guidelines for the conduct of external audits of banks and aims to improve the quality and reliability of financial reporting in the banking sector.

However, the impact of the new directive on the audit quality of banks is not yet clear. There is a need to examine the extent to which the new directive has influenced the audit quality of banks, including the scope and timing of external audits, the quality and reliability of financial reporting, and the effectiveness of communication and collaboration between auditors and bank management.

Moreover, the implementation of the new directive may pose several challenges and opportunities, such as the availability and adequacy of resources, the level of expertise and training of auditors, and the impact on audit fees and profitability. Therefore, it is important to investigate these issues and provide insights into how the new directive can be effectively implemented to improve the quality of financial reporting and audit practices in the banking sector.

Overall, the new directive SBB/86/2023 is an important regulatory measure that has significant implications for the banking sector and its stakeholders. The purpose of this study is to examine the impact of the new directive on the audit quality of banks and identify the challenges and opportunities associated with its implementation. The findings of this study will provide valuable insights that can inform policy decisions and improve the quality of financial reporting and audit practices in the banking sector.

1.2. Statement of the Problem

The effectiveness of external audits is a crucial aspect in ensuring the transparency and reliability of financial information within the banking industry. The National Banking of Ethiopia (NBE) has recently implemented a new directive, SBB/86/2023, which outlines the manner in which external audits of banks should be conducted. This directive is aimed at enhancing the external audit quality of banks. However, it is essential to investigate the impact of this new directive on the actual external audit quality of banks and its overall implications on the audit profession and practice with regards to audit cost and compatibility with requirements of international audit standards and results of operations.

There are several areas of concern that need to be addressed in order to assess the effect of the new NBE directive on external audit quality. Firstly, it is important to examine how the new directive has changed the audit process, including any modifications to the scope, procedures, and reporting requirements. This will help to identify if the directive has resulted in more rigorous and comprehensive audits that provide a true and fair view of a bank's financial position and results of operation.

Secondly, it is necessary to evaluate whether the new directive has led to a more independent and unbiased external audit process. Independence and objectivity are vital characteristics of an external audit, as they ensure that audits are conducted without any undue influence or bias. If the new directive has introduced measures to enhance the independence and objectivity of auditors, it may lead to improved audit quality and greater confidence in the reliability of audited financial statements.

Furthermore, assessing the impact of the new NBE directive on the competence and qualifications of auditors is essential. The directive may have introduced new requirements for auditors, such as specific qualifications or training, to ensure they possess the necessary skills and expertise to conduct thorough and accurate audits. Investigating whether these requirements have translated into better-trained auditors and improved audit quality is crucial in determining the overall effect of the directive.

Lastly, it is imperative to analyze the perception of banks towards the new NBE directive and its impact on the external audit quality. Understanding how banks perceive the effectiveness of the directive and whether they believe it has resulted in tangible improvements in audit quality can provide valuable insights into its overall impact.

Therefore, the objective of this research is to investigate the effect of the new NBE directive, SBB/86/2023, on the external audit quality of banks. By examining changes to the audit process, assessing the impact on independence and objectivity, evaluating the competence and qualifications of auditors, and analyzing banks' perceptions, this study aims to provide a comprehensive understanding of the actual impact of the new directive on the external audit quality of banks.

1.3. Purpose/Rationale/Research Question

The purpose of this research study was to investigate the effect of the new directive SBB/86/2023 issued by the National Bank of Ethiopia (NBE) on the audit quality of banks in Ethiopia. The new directive provides guidelines for the manner of conducting external audits of banks, with the aim of improving the overall quality of audits and ensuring that banks are being held accountable for their financial reporting.

The rationale behind this research was that external audits play a critical role in promoting transparency and accountability in the banking sector. The quality of the audit process can have a significant impact on the reliability and accuracy of a bank's financial statements, which in turn affects the confidence of stakeholders, including regulators, investors, and customers. Therefore, it is important to assess the impact of the new directive on the audit quality of banks.

The research investigates the following research questions:

In general, to what extent has the implementation of the new directive SBB/86/2023 improved the audit quality of banks in Ethiopia?

1. What are the perceptions of external senior auditors, audit managers and audit partners regarding the effectiveness of the new directive in enhancing the quality of external audits of banks in Ethiopia?
2. To what extent has the new directive impacted/improved the independence and objectivity of external auditors in Ethiopia?
3. To what extent has the new directive impacted/improved external auditor's competence and qualifications in Ethiopia?

1.4. Objectives of the study

1.4.1. General Objectives

The general objective of this study was to examine the effect of the new National Bank of Ethiopia (NBE) directive SBB/86/2023 on the quality of external audits conducted on banks in Ethiopia.

1.4.2. Specific Objectives

Specifically, the study aims to:

1. To assess to what extent has the new directive impacted/improved the independence and objectivity of external auditors in Ethiopia?
2. To assess to what extent has the new directive impacted/improved external auditor's competence and qualifications in Ethiopia?
3. To assess to what extent has the new directive impacted/improved external auditors audit planning, auditing process and procedures in Ethiopia?

1.5. Research Hypothesis of the study

In order to answer the above questions, based on the theories and empirical studies on the effect of new directives on the quality of Auditing, the study formulates the following hypotheses:

H₁: The new NBE directive “SBB/86/2023” has a positive influence on the independence and objectivity of external auditors and statistically significant impact on the quality of auditing.

H₂: The new NBE directive “SBB/86/2023” has a positive influence on external auditor’s competence and qualifications.

H₃: The new NBE directive “SBB/86/2023” has a positive influence on the external auditor’s audit planning, auditing process and procedures.

1.6. Significance of the study

The financial sector plays a crucial role in the growth and development of any economy. The performance and stability of banks are critical to the overall stability of the financial system. External audit of banks is one of the key mechanisms used to ensure the reliability and credibility of financial statements issued by banks. In order to enhance the quality of external audits of banks, central banks periodically issue directives that govern the conduct of external audit.

The new directive SBB/86/2023 issued by the National Bank of Ethiopia (NBE) regarding the manner of conducting external audit of banks has significant implications for the banking sector and the overall economy. The directive outlines the requirements and standards that external auditors must adhere to when conducting audits of banks, including the scope of the audit, the qualifications of audit personnel, and the reporting requirements.

The implementation of this new directive is expected to improve the quality of external audits conducted on banks, which has significant implications for the financial stability and transparency of the banking sector. The directive is designed to enhance the independence, objectivity, competence, and rigor procedure of external audits, which will provide greater assurance to stakeholders, including shareholders, regulators, and the public regarding the accuracy and reliability of financial statements and other disclosures.

By ensuring that audits are conducted in a standardized and rigorous manner, the new directive can also help to reduce the risk of fraudulent activities and financial mismanagement within banks. This, in turn, can enhance investor confidence and encourage more investment in the banking sector, leading to improved economic growth and development.

The directive may also have implications for the audit profession as a whole, as it sets a new standard for the conduct of external audits in the banking sector. It may serve as a model for other countries and industries to adopt similar standards to improve the quality and integrity of audits.

Overall, the findings of this research is useful to regulators, policymakers, and other stakeholders in the banking sector who are interested in improving the quality of external audits and promoting transparency and accountability in the sector.

1.7. Scope of the study

The scope was limited to evaluating the influence of the specific NBE directive on bank audit quality aspects of independence and objectivity, competence and qualifications, and audit process & procedures. Other factors of the directive affecting audit quality will be controlled for but are not the main focus of this study. The results are intended to provide insights into the effectiveness of Ethiopia's bank audit regulations.

The study was focused on bank audits conducted after the issuance of Directive SBB/86/2023 in 2023, which is going to be effective from the period July 01,2023 afterwards. The research encompasses commercial banks in Ethiopia that undergo annual external audits. A sample of 11 banks selected for the analysis. Data and information's were gathered via questionnaires and surveys with external auditors, bank staffs, and other stakeholders which is focused on the opinion survey of the practitioners and auditees on the potential implications of the new directive on the selected variables.

1.8. Limitation of the study

The quality of auditing might be affected by other factors other than those factors included in this study. Also, the analysis of the study was based on the data collected from respondents'

perception, which may not be free from individuals' bias. Furthermore, the timeframe maybe too short to see the directive's full effect.

1.9. Organization of the Study this study

This research encompasses five chapters, the 1st chapter presents the introduction part which comprises background of the study, statement of the problem, objective of the study, the research hypothesis, significance of the study and scope and limitation of the study. The 2nd chapter presents conceptual frame work, theoretical and empirical literatures reviews. The 3rd chapter deals with research methodology explaining research design, population, sampling method, sample size and method of data collection & analysis. The 4th chapter presents the survey analysis, results and discussions. Then finally the 5th chapter provides conclusion, recommendation and future research suggestions of the study.

Chapter Two

2. Literature Review

2.1. Introduction/Structure of the literature review

This literature review section is divided into five parts namely introduction/ Structure of the literature review, conceptual framework, regulation and standard, theoretical perspectives and literature review. Under conceptual framework importance of external audit quality and factors influencing external audit quality will be presented. Under regulations and standard, section overview of the new banking regulations and external auditing standards will be discussed. Under theoretical perspectives, theories of different external audit quality shall be presented. Finally, under literature review section, Studies and empirical evidences on the impact of regulations, independence, objectivity, competence, qualification, audit process and procedures impact on external audit quality.

Introduction

The financial sector plays a crucial role in the growth and development of any economy. The performance and stability of banks are critical to the overall stability of the financial system. External audit of banks is one of the key mechanisms used to ensure the reliability and credibility of financial statements issued by banks. In order to enhance the quality of external audits of banks, national banks periodically issue directives that govern the conduct of external audit.

National bank directives play an essential role in regulating the banking industry. In recent years, national banks have introduced new directives with the aim to improve banking transparency and mitigate financial risks. One of the areas that have been affected by these new directives is the requirement for external audits of banks. This literature review aims to explore the various studies that have examined the effect of new national bank directives on the external audit requirement of banks.

2.2. Conceptual Framework

2.2.1. Definition of external audit

An external audit is an independent examination of the financial statements, records, operations and existence of assets of an entity by a qualified auditor. The aim is to determine whether the financial statements are free of material misstatement and give a true and fair view in accordance with the applicable financial reporting standards. (IFAC Handbook, ISA 200 para 2, 11, 13)

The auditor obtains reasonable assurance through gathering sufficient appropriate audit evidence about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error. Audit evidence enables the auditor to draw reasonable conclusions to provide a basis for the audit opinion. (IFAC Handbook, ISA 200 para 5, 17)

The external auditor must comply with relevant ethical requirements including independence from the entity. (IFAC Handbook, ISA 200 para 14, 17)

The audit results in an audit report addressed to the shareholders or other intended users of the financial statements. The report provides the auditor's opinion which states whether the financial statements give a true and fair view and are prepared in accordance with the identified financial reporting framework. (IFAC Handbook, ISA 700)

In summary, an external audit aims to enhance the degree of confidence of intended users of the financial statements by providing the auditor's independent, expert opinion on the fairness and compliance of those statements.

2.2.2. Importance of external audit quality

High quality audits by competent, independent auditors are imperative for stakeholder confidence in the credibility and integrity of financial statements (DeAngelo, 1981). Audit quality refers to the accuracy and reliability of the audit report and auditors' ability to detect material misstatements (Knechel et al., 2013). Quality audits provide investors, regulators, and other stakeholders with assurance that the financial statements fairly represent the company's financial position and performance (PCAOB, 2013).

i. Financial Reporting Credibility

A rotation for high audit quality strengthens public trust in the accuracy of financial reporting. Conversely, low quality audits undermine confidence in financial information (Wilson & Grimlund, 1990). Chan et al. (2003) associated quality with the readability, informativeness and objectivity of reporting.

ii. Reduces Information Risk

A high quality audit enhances the credibility of financial statements and reduces information risk for stakeholders (Lim & Tan, 2008). It provides assurance that the statements are free of material errors, comply with accounting standards, and present a true and fair view of the company's financial position and operating results (Watts & Zimmerman, 1986). High audit quality signals low risk to investors and creditors.

iii. Prevents Fraud

A rigorous high quality audit acts as a deterrent to fraudulent financial reporting by management (DeFond & Zhang, 2014). The likelihood of auditors detecting irregularities and misstatements is greater when audit quality is higher. Stringent audit testing on internal controls and substantive procedures discourages fraud.

iv. Regulatory Compliance

High quality audits ensure companies comply with accounting standards and regulations (Watts & Zimmerman, 1983). Governments rely on effective audits for tax compliance and reducing financial malfeasance.

v. Lowers Cost of Capital

Higher financial statement credibility and assurance from high quality audits helps reduce companies' cost of capital (Jensen & Meckling, 1976). Lenders and investors perceive lower risk and require lower rates of return. This reduces financing costs for companies.

vi. Strengthens Corporate Governance

Quality audits strengthen corporate governance by enhancing the reliability of financial information provided to the board of directors and audit committees (Cohen et al., 2007). This enables sound governance oversight on strategy, risks, internal controls, and financial performance.

vii. Builds Public Trust

High audit quality promotes greater public trust in companies and capital markets by certifying the accuracy of financial information (Hodge, 2003). Reliable audited financial data enables market efficiency and economy-wide resource allocation.

viii. Constrain Earnings Management

High quality audits serve as a check on management engaging in aggressive or fraudulent accounting and reporting (Becker et al., 1998). Effective audits deter earnings management like smoothing, while low audit quality enables greater manipulation (Francis & Wang, 2008).

In summary, research affirms that stringent audits enhance financial statement credibility, lower companies' cost of capital, deter fraud, strengthen governance, and underpin public trust in financial reporting. This underscores the immense economic importance of high quality independent external audits.

2.2.3. Factors influencing external audit quality

Numerous studies have examined the factors that impact the quality of external financial statement audits. Audit quality has been defined as the accuracy and reliability of auditors' reports on clients' financial statements (DeAngelo, 1981). High quality audits provide assurances that the financial statements are free of material misstatements and comply with accounting standards.

Some of the main factors influencing external audit quality are: Auditors competence and Independence, Audit process and procedures, Audit firm factors, Audit team factors, Client Factors, and Regulatory factors.

i. Auditor Competence and Independence

A major factor influencing audit quality is the knowledge, skills, and experience of the auditors performing the audit. DeAngelo (1981) found that larger audit firms with more industry expertise provide higher quality audits. Auditors must have strong technical accounting skills, keep updated on changing accounting standards, and understand the client's specific industry and business model in order to assess risks and design appropriate audit procedures (Trotman & Wright, 2012). More experienced auditors with more training are better able to identify complex issues and have the judgment needed to conduct high quality audits (Bonner & Lewis, 1990).

In addition to competence, the independence of auditors from their clients is critical for an objective and high quality audit. Auditors with economic dependence on retaining a client may consciously or subconsciously be less rigorous in their audit to avoid antagonizing the client (DeAngelo, 1981). Regulators have established standards of ethical conduct and disclosure requirements to promote unbiased audits (Francis, 2011).

ii. Audit process and procedures

a) Planning Phase

Proper audit planning improves audit quality by helping auditors understand the client's business, identify risks, and design effective procedures (Bedard & Biggs, 1991). Planning includes gaining client knowledge, performing preliminary analytics, assessing materiality thresholds, and developing the audit strategy and plan. Insufficient planning leads to inappropriate risk assessments and audit programs (Loebbecke et al., 1989).

b) Risk Assessment

A robust risk assessment process is crucial for focusing audit efforts on high risk areas and tailoring procedures accordingly (Eilifsen & Messier, 2015). Identifying and responding to assessed engagement risks is associated with higher audit quality (Knechel et al., 2007). In contrast, inadequate risk analysis leaves auditors vulnerable to undiscovered misstatements.

c) Internal Controls Testing

Strong audit testing of internal controls enables auditors to rely on controls and reduce substantive testing (Messier et al., 2008). Proper controls testing improves audit quality, whereas incomplete or cursory controls testing deteriorates detection of control deficiencies (Krishnan & Visvanathan, 2007).

d) Audit Evidence Gathering

The sufficiency and appropriateness of audit evidence obtained determines audit quality (Nelson et al., 2002). Following the audit program to obtain adequate evidence from analytics, confirmations, observations, etc. leads to effective audits. Insufficient appropriate evidence impairs audit conclusions (Eilifsen & Messier, 2015).

e) Documentation

Complete, accurate audit documentation provides support for audit conclusions and the final opinion (Reisch, 2000). Proper documentation also enables supervision and review. Poor documentation suggests weak audit quality and inability to support findings (Caramanis & Lennox, 2008).

f) Supervision and Review

Ongoing supervision of audit staff and thorough review of work performed and conclusions obtained improves quality by identifying errors and inconsistencies for correction (Trotman, 1985). Weak supervision and review undermine audit effectiveness.

g) Consultation

Consulting with specialists and more experienced auditors when difficult or ambiguous issues arise helps auditors properly consider and resolve such matters (Eilifsen & Messier, 2015). Lack of needed consultation reduces audit quality.

In summary, audit research shows adherence to processes of planning, risk assessment, evidence gathering, documentation, supervision, and consultation significantly enhances audit quality. Taking shortcuts or failing to follow audit standards in these areas impairs audit quality.

iii. Audit Firm Factors

Characteristics of the audit firm conducting the audit also impact quality. Larger audit firms have more industry expertise, technical resources, and quality control systems that enhance audit quality, whereas smaller firms may lack the expertise or resources needed for complex audits (Palmrose, 1986). Firms that emphasize audit quality in their culture, procedures, and incentive systems produce higher quality audits compared to firms focused predominantly on efficiency or profitability (Francis, 2011). Reasonable auditor workload and time budgets set by the audit firm are necessary for performing thorough, well-planned audits (Coram et al., 2003). Effective internal quality control processes within audit firms also reduce errors and improve compliance with standards (Payne & Ramsay, 2005).

iv. Audit Team Factors

The assigned audit team has a direct impact on engagement quality. Auditors trained in professional skepticism, risk assessment, and new standards exhibit higher audit quality (Trotman & Wright, 2012). A cohesive audit team with open communication that coordinates knowledge sharing and leverages collective expertise is more effective (Payne & Ramsay, 2005). In contrast, inexperienced teams and lack of coordination reduce audit quality.

v. Client Factors

Client characteristics also introduce risks that auditors must mitigate. Clients with complex, judgement-dependent accounts or operations require more audit effort (Owhoso et al., 2002). Ethical, competent clients committed to transparency support high quality audits, while dishonest or deceitful clients present risks (Becker et al., 1998). Oversight from strong corporate governance and internal auditors improves the quality of external audits as well (Cohen et al., 2002).

vi. Regulatory Factors

Strict auditing laws, regulations, and professional standards compel auditors to adhere to diligent audit procedures and deliver high quality audits. Weak standards enable lower quality audits (Francis, 2011). High litigation risk provides incentives for auditors to strictly follow standards, while low litigation environments reduce quality motivations (Palmrose, 1988).

In summary, research has established a wide range of auditor, client, firm, team, and regulatory factors that impact the quality of independent external audits of company financial statements.

2.3. Regulations and Standards

2.3.1. Overview of banking regulations and external auditing standards

Banking regulations and external auditing standards play a crucial role in ensuring the integrity and transparency of the banking sector. These regulations and standards aim to protect the interests of stakeholders, maintain financial stability, and enhance the credibility of financial reporting.

Banking regulations encompass a wide range of rules and guidelines that govern the operations of banks and financial institutions. They are designed to promote safety and soundness in the banking system, prevent financial crimes such as money laundering and fraud, and protect consumers. These regulations are typically set by regulatory authorities such as central banks and financial regulatory agencies. They cover various aspects of banking activities, including capital adequacy, risk management, liquidity, corporate governance, and disclosure requirements (Masciandaro et al., 2020).

External auditing standards, on the other hand, provide guidelines and principles for conducting external audits of financial statements. These standards are developed by professional bodies such as the International Auditing and Assurance Standards Board (IAASB) and are aimed at ensuring the quality and reliability of audit engagements. External audits are conducted by independent auditors who assess the fairness and accuracy of financial statements prepared by banks and other entities. The auditors provide an opinion on whether the financial statements present a true and fair view of the entity's financial position and performance (Mihret & Admassu, 2011).

The relationship between banking regulations and external auditing standards is intertwined. Banking regulations often require banks to undergo external audits to ensure compliance with regulatory requirements and to provide assurance to stakeholders. External auditors, in turn, rely on these regulations to guide their audit procedures and to assess the effectiveness of internal

controls and risk management systems in place at banks. The audit process helps to identify any weaknesses or deficiencies in the bank's operations and provides recommendations for improvement (Mihret & Admassu, 2011).

Several studies have examined the impact of banking regulations and external auditing standards on various aspects of the banking sector. For example, a study by Khurana & Zhong (2021) found that regulations targeting auditor qualifications and independence improve bank reporting quality, while regulations that impose greater supervisory oversight of external auditors have little or adverse effects on bank reporting quality (Khurana & Zhong, 2021). Another study by Mihret & Admassu (2011) explored the reliance of external auditors on internal audit work and found that internal audit work performance is the most important factor determining the extent of external auditors' reliance on internal audit work (Mihret & Admassu, 2011).

In summary, banking regulations and external auditing standards are essential components of the financial system. They work together to ensure the integrity, transparency, and stability of the banking sector. These regulations provide a framework for banks to operate within, while external auditing standards guide auditors in assessing the accuracy and reliability of financial statements. By adhering to these regulations and standards, banks can enhance their governance practices, improve financial reporting quality, and build trust with stakeholders.

2.3.2. National Banking Authority (NBE) and its role in regulating banks

The National Banking Authority plays a crucial role in regulating banks and overseeing the external audit process. The authority is responsible for setting and enforcing banking regulations to ensure the stability and integrity of the banking system (Demirguc-Kunt et al., 2003). These regulations cover various aspects of banking activities, including capital adequacy, risk management, liquidity, corporate governance, and disclosure requirements. The National Banking Authority has the authority to make arrangements and supervise banks, as stated in the Financial Services Authority Law (Hapsari & Kurniawan, 2020).

One of the key responsibilities of the National Banking Authority is to oversee the external audit process of banks. External audits are conducted by independent auditors to assess the accuracy

and reliability of financial statements prepared by banks . The National Banking Authority ensures that banks comply with regulatory requirements related to external audits and provides guidance to auditors in conducting their work (Masciandaro et al., 2020). The authority may also establish standards and guidelines for auditors to follow in order to enhance the quality and effectiveness of the audit process (Sulaiman, 2017).

The National Banking Authority reviews the reports prepared by external auditors and assesses the presentation and communication between the auditors and the bank's audit committee (Sulaiman, 2017).

This oversight role helps to ensure that the audit process is thorough and that any issues or deficiencies in the bank's operations are identified. The authority also evaluates the independence, appointment, remuneration, and effectiveness of the audit process, as recommended by the UK Code of Corporate Governance (Sulaiman, 2017). However, the effectiveness of the oversight role may be influenced by factors such as the quality of the chairman of the audit committee and the relationship between the committee and the auditors (Sulaiman, 2017).

In addition to overseeing the external audit process, the National Banking Authority is responsible for supervising banks to ensure compliance with regulatory requirements (Saxunova & Roux, 2021). This includes monitoring the financial health and risk management practices of banks, as well as conducting regular inspections and assessments (Saxunova & Roux, 2021). The authority may also have the power to impose sanctions or take corrective actions against banks that fail to meet regulatory standards (Krahlevych, 2019).

Overall, the National Banking Authority plays a critical role in regulating banks and overseeing the external audit process. By setting and enforcing banking regulations and ensuring the effectiveness of the external audit process, the authority helps to maintain the stability and integrity of the banking system and protect the interests of stakeholders (Demirguc-Kunt et al., 2003).

2.3.3. NBE Directive "SBB/86/2023: Manner of Conducting External Audit of a Banks"

Figure 1: SBB 86/23-Article 8-12 Responsibilities and Requirements of Audit

Purpose and objectives of the directive
Purpose:
<ul style="list-style-type: none"> ▪ To strengthen the quality, rigor, and transparency of independent external audits for banks in Ethiopia.
Key Objectives:
<ul style="list-style-type: none"> ▪ Improve audit quality through establishment of Audit Quality Assurance Unit at NBE to inspect bank audits.
<ul style="list-style-type: none"> ▪ Enhance auditor competence and capacity by requiring prequalification and setting experience criteria.
<ul style="list-style-type: none"> ▪ Maintain auditor independence by mandating firm rotation and restricting non-audit services.
<ul style="list-style-type: none"> ▪ Expand audit coverage and effort for high-risk areas like credit approval.
<ul style="list-style-type: none"> ▪ Increase fraud detection through emphasis on professional skepticism.
<ul style="list-style-type: none"> ▪ Bolster audit reporting to NBE on risks, deficiencies, and governance.
<ul style="list-style-type: none"> ▪ Leverage expertise of both Big 4 and local audit firms via joint audits.
<ul style="list-style-type: none"> ▪ Provide detailed guidance to auditors on scope, sampling, risk assessment, reporting etc.
<ul style="list-style-type: none"> ▪ Strengthen oversight and transparency of bank audits through NBE reviews.
<p>The main goal of this directive is to improve the reliability, transparency, and compliance of bank financial reporting in Ethiopia via more stringent independent audits. This should enhance public trust and stability in the banking system.</p>

Source: SBB/86/23 Article 8-12

There are some examples of world regulatory bodies imposing specific audit requirements or scope on external audits:

In the United States, the Public Company Accounting Oversight Board (PCAOB) sets standards for audits of public companies. These include requirements for auditing internal control over financial reporting (PCAOB AS 2201), using the work of specialists (PCAOB AS 1210), and audit documentation (PCAOB AS 1215).

The Securities and Exchange Commission (SEC) requires external auditors of public companies to audit and report on the adequacy of internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act.

The Federal Reserve's Regulation Y requires audits of financial institutions it supervises. Section 225.181 specifies scope requirements like audit coverage, internal control testing, loan review, and audit reports.

The UK's Financial Reporting Council sets auditing standards that require auditors to consider laws and regulations in audit scope (ISA 250), identify and assess risks of material misstatement (ISA 315), and obtain audit evidence regarding use of fair value accounting (ISA 540).

In the EU, directive 2014/56/EU article 27 requires statutory audits of banks and public interest entities to include an opinion on whether the annual or consolidated accounts give a true and fair

Figure 2: Key provisions and requirements

The key provisions and requirements of the National Bank of Ethiopia's Directive No. SBB/86/2023 on conducting external audits of banks include:
▪ Banks must appoint external auditors from NBE's prequalified list based on criteria like competence, resources, reputation.
▪ Mandatory auditor rotation required every 4 years.
▪ Restrictions on auditors providing non-audit services to banks they audit.
▪ Auditors should have extensive experience conducting bank audits.
▪ Detailed guidelines provided for audit scope coverage by areas.
▪ Specific minimum work hours prescribed for auditing key areas.
▪ Guidance on audit sampling methods and minimum sample sizes.
▪ Required focus on high-risk areas like credit evaluation and lending.
▪ Auditors must assess fraud risks and exercise professional skepticism.
▪ Expanded reporting by auditors to NBE on risks, deficiencies, governance issues.

<ul style="list-style-type: none"> ▪ Joint audits mandated using one Big 4 firm along with local audit firm.
<ul style="list-style-type: none"> ▪ NBE established Audit Quality Assurance Unit to inspect bank audits.
<ul style="list-style-type: none"> ▪ Auditors must comply with code of ethics and independence standards.
<ul style="list-style-type: none"> ▪ Auditors must report to NBE in timely manner and follow-up on issues.
<p>Generally, the directive establishes stringent standards, procedures, and oversight for bank audits to significantly strengthen audit quality, independence, transparency, and compliance.</p>

Source: SBB/86/23 Article 8-12

In summary, the directive is likely to enhance audit quality for Ethiopian banks in several dimensions, as predicted by auditing theory and research. By prequalifying auditors, the directive can strengthen technical competence (DeAngelo, 1981). Mandating periodic rotation and restricting non-audit services should improve independence (Quick & Warming-Rasmussen, 2009). Requiring wider audit coverage across risk areas will bolster the scope and diligence of work (Eilifsen & Messier, 2015). Detailed standards for work hours and sampling will further enhance diligence (Lowenshon et al., 2016). A focus on high risk lending can improve fraud detection through increased professional skepticism (Nelson, 2009). Joint audits leveraging Big 4 and local expertise provide complementary benefits (Zerni et al., 2012). Expanded reporting to regulators and oversight helps guarantee compliance (Carson et al., 2013). Together these measures significantly raise audit standards across competence, independence, work effort, risk assessment, reporting, and oversight as called for by policymakers and researchers (IOSCO, 2002; PCAOB, 2013). This should meaningfully improve public trust and stability in the banking system (Power, 2003; Humphrey et al., 2009).

2.4. Theoretical Perspectives

2.4.1. Agency theory and the role of external audits

This theory explores the relationship between principals (shareholders) and agents (managers) in an organization. In the banking sector, this theory becomes even more crucial due to the complex nature of financial institutions and the potential conflicts of interest that may arise.

The implications of agency theory for external audits in the banking sector. External audits play a vital role in ensuring transparency, accountability, and trustworthiness in the financial statements of banks. As per agency theory, managers may have their own interests or hidden agendas that might not align with the best interests of shareholders. (Smith, J.B. 2023)

External audits act as a safeguard against such agency problems. They provide an independent assessment of the bank's financial statements, ensuring that they accurately reflect the true financial position of the institution. This helps in reducing information asymmetry between managers and shareholders, as well as mitigating potential conflicts of interest.

Furthermore, external audits also help in enhancing the credibility of banks by providing assurance to stakeholders that the financial statements are prepared in accordance with relevant accounting standards and regulations. This is especially important in the banking sector, as it involves managing huge amounts of money and dealing with complex financial instruments. The presence of external auditors adds an extra layer of scrutiny and confidence for shareholders, investors, regulators, and other stakeholders.

Moreover, external audits also aid in risk management within banks. By thoroughly examining the bank's internal controls, processes, and procedures, auditors can identify any weaknesses or gaps that may expose the institution to unnecessary risks. This helps in strengthening the overall governance structure of banks and ensures compliance with industry standards and regulations.

In addition to these benefits, external audits also contribute to improving corporate governance within banks. Through their independent assessment, auditors not only evaluate the financial statements but also assess the effectiveness of internal controls and risk management systems. This evaluation helps in identifying areas for improvement and enhancing the overall governance framework of the bank.

Overall, agency theory provides us with a valuable lens to understand the importance of external audits in the banking sector. By addressing agency problems, external audits play a crucial role in ensuring transparency, accountability, and good corporate governance within banks. They act as a tool to mitigate conflicts of interest, enhance risk management practices, and provide assurance to stakeholders. So, it's safe to say that agency theory and its implications for external audits in the banking sector are not just exciting but also essential for maintaining the stability and trustworthiness of financial institutions.

2.4.2. Stewardship theory and the importance of audit quality

Stewardship theory is a concept in management and organizational studies that emphasizes the responsibility of managers to act as stewards or caretakers of the resources and assets entrusted to them by shareholders or stakeholders. The theory suggests that managers are motivated by a sense of duty and loyalty to the organization, and their primary objective is to ensure the long-term success and sustainability of the organization. This theory contrasts with agency theory, which assumes that managers are self-interested and may make decisions that prioritize their own interests over those of the organization (Davis, J.H, 1997).

In the context of audit quality, stewardship theory emphasizes the importance of ensuring that audits are conducted with integrity, independence, and professionalism. The theory recognizes that audits play a critical role in providing assurance to shareholders and stakeholders about the accuracy and reliability of financial statements. By conducting high-quality audits, auditors can help to ensure accountability and responsible management by providing an objective assessment of an organization's financial performance and internal controls.

Audit quality is essential for several reasons. First, it helps to enhance the credibility of financial statements. When auditors perform their duties diligently, it provides assurance to shareholders and stakeholders that the financial statements are prepared in accordance with relevant accounting standards and fairly represent the organization's financial position and performance. This promotes transparency and trust in the financial reporting process.

Second, audit quality helps to detect and prevent fraud and financial misstatements. Through rigorous testing of financial records and internal controls, auditors can identify potential risks and irregularities that may undermine the integrity of financial statements. By doing so, they contribute to responsible management by helping to prevent unethical practices and ensuring that the organization's resources are used appropriately.

Third, high-quality audits contribute to effective corporate governance. Stewardship theory recognizes that managers have a fiduciary duty to act in the best interests of shareholders and stakeholders. Audits provide an independent assessment of management's performance in

fulfilling this duty. By evaluating the effectiveness of internal controls and identifying areas for improvement, audits help to hold managers accountable and encourage responsible decision-making.

In conclusion, stewardship theory emphasizes the importance of responsible management and accountability in organizations. Audit quality plays a crucial role in ensuring that organizations fulfill their stewardship responsibilities by providing reliable and accurate financial information. By conducting high-quality audits, auditors contribute to transparency, trust, and effective corporate governance. This helps to enhance the credibility of financial statements, detect and prevent fraud, and hold managers accountable for their actions. Ultimately, stewardship theory and audit quality go hand in hand in promoting accountability and responsible management.

2.4.3. Institutional theory and the influence of regulations on audit quality

Institutional theory suggests that organizations and individuals within organizations conform to social norms, traditions, regulations, and expectations in order to receive support and legitimacy. Within the auditing context, institutional theory proposes that auditors are influenced by the regulatory environment and will adjust their behaviors and audit procedures to align with regulations and expectations from regulatory bodies. This is done to gain legitimacy, resources, and survival capabilities from important stakeholders like regulatory agencies (Malsch and Gendron, 2013).

Regulations that relate to audit quality include auditor independence rules, audit firm rotation requirements, restrictions on non-audit services, auditor reporting standards, and audit oversight programs. Research finds that these regulations shape auditing norms and auditor behaviors in ways that are intended to improve audit quality. For example, mandatory audit firm rotation has been found to reduce long-term auditor-client relationships that could impair objectivity and professional skepticism (Cameran et al., 2005). Oversight programs like PCAOB inspections motivate auditors to follow regulations and standards more diligently to avoid deficiencies (Carson et al., 2013).

Overall, institutional theory suggests that auditors will adapt their procedures and judgments in response to regulations and the pressures of regulatory bodies in order to improve audit quality

and gain legitimacy. Regulatory changes play an important role in shaping audit quality according to institutional perspectives.

2.5. Empirical Studies

2.5.1. Studies on the impact of regulations on audit quality in general

Previous studies have extensively examined the impact of regulations on audit quality, with a particular focus on the banking sector. These studies have sought to understand how regulatory changes affect the quality of audits conducted in banks and financial institutions. The research has explored various aspects, including the effectiveness of regulatory oversight, the role of external auditors, and the impact of specific regulations on audit quality.

One area of focus in previous studies is the effectiveness of regulatory oversight in ensuring high-quality audits in the banking sector. Researchers have examined the role of regulatory bodies such as the Securities and Exchange Commission (SEC) and the Public Company Accounting Oversight Board (PCAOB) in setting standards and monitoring compliance. The findings suggest that strong regulatory oversight positively influences audit quality by promoting adherence to auditing standards, improving auditor independence, and enhancing the overall credibility of financial statements.

Another aspect that researchers have explored is the role of external auditors in maintaining audit quality in banks. Studies have examined factors such as auditor expertise, experience, and independence in relation to audit quality. The results indicate that auditors with higher levels of expertise and experience are more likely to perform high-quality audits. Additionally, studies have highlighted the importance of auditor independence in ensuring unbiased and objective evaluations of financial statements.

Furthermore, previous research has investigated the impact of specific regulations on audit quality in the banking sector. For example, studies have examined the effects of regulations such as the Sarbanes-Oxley Act (SOX) and Basel III on audit quality. The findings suggest that these regulations have had a positive impact on audit quality by strengthening internal controls, enhancing risk management practices, and improving transparency and disclosure requirements.

Overall, previous studies have provided valuable insights into the impact of regulations on audit quality in the banking sector. The research has highlighted the significance of regulatory oversight, auditor expertise, and specific regulations in ensuring high-quality audits. These findings can inform policymakers, regulators, and auditors in their efforts to enhance audit quality and maintain the integrity of financial reporting in the banking sector. However, it is important to note that there may be limitations to the generalizability of these findings and further research is needed to fully understand the complex relationship between regulations and audit quality in the banking sector.

Findings regarding the relationship between regulations and audit quality

Hassab Elnaby's study examines the impact of central bank directives on external audit quality in the context of the Egyptian banking sector. The findings show that the implementation of new directives, which included stricter audit standards and expanded audit scopes, significantly improved the external audit quality. The study suggests that these changes enhanced the credibility of financial reporting and increased stakeholder confidence in the Egyptian banking system. (Hassab Elnaby T, 2016).

Hakim A.'s research explores the effects of central bank regulations on external audit quality in Arabic banking systems. The study finds that the adoption of international accounting and auditing standards, driven by new directives, positively affects external audit quality. The alignment with international standards enhances the independence and objectivity of external auditors, leading to more reliable financial reporting in the banking sector (Hakim, A. 2019).

Nguyen V.'s study investigates the effect of central bank directives on audit fees of Vietnamese commercial banks. The findings reveal that the implementation of new directives, which included higher audit standards and expanded audit scopes, led to increased audit fees for banks. The study suggests that the regulatory burden and additional compliance requirements introduced by the directives contributed to the higher costs associated with external audits (Nguyen, V. 2018).

Alkhatib K.'s research examines the application of Basel III directives, a set of international banking regulations, on external audit quality in Jordanian banks. The study finds that the adoption of Basel III resulted in increased focus on risk assessment and internal controls, which positively influenced external audit quality. The findings suggest that the directives enhanced the reliability of financial reporting and contributed to the stability of the Jordanian banking system (Alkhatib, K., 2017).

Aires C.'s & Morais A. I.'s study investigates the influence of central bank prudential regulations on external audit quality in Europe. The findings suggest that stricter regulations on financial reporting, risk management, and internal controls, which were imposed by new directives, resulted in higher external audit quality. The study emphasizes the importance of regulatory frameworks in promoting transparency and accountability in the European banking sector (Aires, C. 2017).

Nayak J.'s & Babu N.S.'s research focuses on the factors influencing external audit quality in Indian commercial banks. The study finds that the compliance with new central bank directives, which emphasized the adoption of international accounting and auditing standards, positively affects external audit quality. The research highlights the role of regulatory reforms in enhancing transparency and reliability of financial reporting in the Indian banking industry (Nayak, J., & Babu, N. S. 2017).

These studies collectively suggest that new central bank directives have a significant impact on the external audit quality of banks. The implementation of these directives often leads to enhanced audit standards, increased auditor independence, and alignment with international accounting and auditing standards. While these changes may result in increased compliance costs for banks, they ultimately strengthen the integrity and reliability of financial reporting, contributing to the stability of the banking sector.

2.5.2. Studies on auditor independence and objectivity

Factors influencing auditor independence and objectivity

There are several key factors that can influence auditor independence and objectivity. These factors play a crucial role in maintaining the credibility and reliability of the audit process. Here are some of the most significant factors:

Financial Relationships: Auditor independence can be compromised if there are financial relationships between the auditor and the client beyond the professional fee arrangement. Such relationships include loans, investments, or substantial business transactions. These financial ties may create a conflict of interest and compromise objectivity (Bamber, E.M., & Iyer, V.M, 2007).

Familiarity Threats: Auditors need to maintain an appropriate level of professional skepticism and objectivity when dealing with clients. However, if an auditor has a long-standing relationship with a client or has personal ties with key individuals within the client's organization, objectivity can be affected. Familiarity can create a bias that impairs the auditor's ability to make independent and objective assessments (Tepalagul, N., & L. 2015).

Non-Audit Services: When auditors provide non-audit services, such as consulting or bookkeeping, to their audit clients, independence can be compromised. This is because providing non-audit services may create a self-review threat, where auditors may inadvertently review their own work or become too involved in management decisions, undermining their objectivity (Tepalagul, N., & L. 2015).

Audit Tenure: The length of the auditor-client relationship, also known as audit tenure, can influence auditor independence. Research suggests that longer audit tenure could lead to familiarity and potential complacency, which may affect the auditor's ability to maintain objectivity. Governments and regulatory bodies often impose mandatory auditor rotation to reduce the impact of long-term relationships (Tepalagul, N., & L. 2015).

Employment Opportunities: The possibility of future employment or financial benefits from a client can impair auditor independence and objectivity. If an auditor believes that their objectivity may impact future employment prospects or financial gains, their judgment may become compromised. This highlights the importance of auditors maintaining their independence from client organizations (Bamber, E.M., & Iyer, V.M, 2007).

Regulatory Oversight: Regulatory bodies and professional associations play a critical role in promoting and monitoring auditor independence. Establishing and enforcing clear independence rules and guidelines helps audit firms and auditors maintain their objectivity. Oversight and

enforcement of these regulations contribute to the overall credibility of the auditing profession (Bamber, E.M., & Iyer, V.M, 2007).

Overall, maintaining auditor independence and objectivity is essential for the credibility and reliability of financial reporting. Auditors must actively manage these factors and ensure that they remain unbiased, objective, and free from any conflicts of interest when conducting audits.

Empirical evidence on the impact of auditor independence on audit quality

Numerous studies have been conducted to examine the impact of auditor independence on audit quality, with many of them providing empirical evidence on this relationship. Here are some key findings from the research:

Enhanced Financial Reporting Quality: Several studies have found a positive relationship between auditor independence and the quality of financial reporting. For example, research has shown that auditors with higher independence are more likely to issue qualified opinions when financial statements are materially misstated. This indicates that independent auditors are more effective in detecting and reporting accounting irregularities, thereby contributing to higher-quality financial statements (Bamber, E.M., & Iyer, V.M, 2007).

Reduced Earnings Management: Auditor independence has also been found to be negatively associated with earnings management. Companies may attempt to manipulate their reported earnings through various means, but independent auditors are more likely to resist such pressures and mitigate the extent of earnings management. Research suggests that auditors with higher independence are more effective in constraining earnings manipulation, leading to greater audit quality (Bamber, E.M., & Iyer, V.M, 2007).

Timeliness of Financial Reporting: Auditor independence has been linked to the timeliness of financial reporting. Independent auditors are more likely to complete their work promptly and issue audit opinions within the required time frame. This timeliness enhances the reliability and usefulness of financial statements, allowing stakeholders to make informed decisions in a timely manner (Bamber, E.M., & Iyer, V.M, 2007).

Restatement Reduction: Studies have shown that auditor independence is associated with a lower likelihood of financial statement restatements. Restatements occur when previously issued

financial statements need to be corrected due to errors or misstatements. Independent auditors are more effective at identifying and addressing such errors, resulting in a lower incidence of restatements and improved audit quality (Bamber, E.M., & Iyer, V.M, 2007).

Market Reactions: Shareholders and investors respond positively to auditors' independence. Research has shown that when companies engage an independent auditor, their stock prices tend to experience positive abnormal returns. Investors perceive independent audits as a signal of higher-quality financial reporting, leading to increased confidence in the company's financial information (Bamber, E.M., & Iyer, V.M, 2007).

Regulatory Impact: The establishment and enforcement of independence regulations and standards by regulatory bodies have been found to positively influence audit quality. Studies have shown that tighter independence regulations result in higher audit quality and increased confidence in financial reporting (Bamber, E.M., & Iyer, V.M, 2007).

These empirical findings collectively suggest that auditor independence is a crucial component of audit quality. Independent auditors are better able to identify and address financial reporting irregularities, resist earnings management pressures, and provide timely and reliable audit services. The evidence supports the importance of maintaining and strengthening auditor independence to safeguard the integrity and credibility of financial reporting.

2.5.3. Studies on auditor competence and qualifications

The importance of auditor competence and qualifications

The role of auditors in providing assurance on financial statements and ensuring compliance with regulations is critical to the proper functioning of capital markets and maintaining investor confidence. As such, the competence and qualifications of auditors are vital. Auditors must have the necessary skills, knowledge, and experience to carry out high quality audits and uphold their duties to investors, regulators, and the public interest (DeAngelo 1981).

Auditor competence refers to the ability of auditors to identify material misstatements and noncompliance as well as make appropriate judgments. Competence requires having strong auditing skills, industry knowledge, skepticism, and understanding of accounting and regulatory standards (International Auditing and Assurance Standards Board 2009). Proper training and development are essential for auditors to gain and maintain competence. Studies show that audits

performed by more competent and experienced auditors are of higher quality and lead to greater audit fee premiums, indicating their expertise is valued (Carcello et al. 1992; Palmrose 1986).

In many jurisdictions, auditors must meet certain educational requirements and pass qualifying exams to obtain licenses that allow them to perform audits. For example, in the United States all Certified Public Accountants (CPAs) must have at least a bachelor's degree in accounting, pass the Uniform CPA Exam, and meet experience requirements (American Institute of CPAs 2022). These qualifications ensure auditors have undergone rigorous training and vetting processes before being allowed to take on the responsibilities of external auditors.

Maintaining continuing professional education is also critical for auditors to keep up with changes in standards and regulations. Studies find auditors who complete more training hours are associated with higher audit quality (Raghunandan et al. 2003). Regulators often set minimum continuing education requirements to ensure auditors maintain their knowledge.

In summary, auditor competence and qualifications obtained through education, training, and experience are paramount to executing high quality audits and upholding auditor duties to the public interest. Regulators and professional bodies play an important role in setting qualification standards and continuing education requirements for auditors. Competent and qualified auditors help reinforce public trust and confidence in financial reporting.

Research on the relationship between auditor qualifications and audit quality

The quality of financial statement audits plays a critical role in upholding capital market integrity and public trust in financial reporting. Audit quality refers to auditors' ability to detect material misstatements and noncompliance with regulations, make appropriate judgments, and issue accurate audit opinions (DeAngelo 1981). High audit quality helps ensure investors receive reliable financial information. As such, understanding the factors associated with higher audit quality has important policy and regulatory implications. One area of focus has been examining how auditor qualifications, such as education, certification, training, and experience, impact audit quality. This paper reviews academic research on the link between auditor qualifications and audit quality.

Auditor Education

One of the most basic qualifications for auditors is education standards. In many countries, auditors are required to hold a university degree before they can be certified and licensed to perform audits. Numerous studies find a positive association between auditors' education levels and audit quality. Auditors with postgraduate degrees are linked to higher audit quality compared to those with only undergraduate education (Li 2009; Chi et al. 2009). Advanced degrees can provide auditors with improved technical knowledge and analytical skills applicable to audits.

Additionally, studies show auditors from more prestigious universities with highly ranked accounting programs produce higher quality audits on average (Teshima and Shuto 2012; Francis 2011). This suggests the quality and reputation of education impacts auditor capabilities.

Certification and Licensing

Professional accounting certifications like Certified Public Accountant (CPA) in the U.S. or Chartered Accountant (CA) in the U.K. require auditors to pass rigorous examinations testing their technical proficiency. Earning these certifications signals auditors possess the minimum qualifications and knowledge needed to perform audits competently.

Research finds CPAs are associated with higher audit quality compared to non-CPAs (Lowe et al. 1999; Krishnan and Visvanathan 2007). This supports certification requirements as an effective way to enhance auditor qualifications.

Similarly, licensed auditors who can legally sign audit opinions tend to perform higher quality audits than unlicensed auditors (Li 2009; Lu and Sivaramakrishnan 2009). Licensing helps restrict auditing to those meeting qualification standards.

Training and Experience

While education and certification reflect auditors' technical capabilities, training and work experience are also critical for developing auditing skills and expertise. Auditors with more professional experience, particularly in certain industries, are better able to identify risks and irregularities (Zhang et al. 2007; Gul et al. 2013).

Additionally, auditors who undergo more training are linked to higher audit quality and better audit outcomes (Raghunandan et al. 2003; Lowensohn et al. 2007). Continuing professional education enables auditors to stay updated on accounting standards and auditing methods.

Conclusion

In summary, research evidence clearly demonstrates auditor qualifications in terms of education, certification, training, and experience positively impact audit quality. Regulators and policymakers should continue to assess qualification requirements to ensure auditors meet appropriate standards to fulfill their essential societal roles and duties. Maintaining high auditor qualifications helps promote quality audits and, in turn, capital market integrity and public trust.

2.5.4. Studies on audit process and procedures

Evaluation of different audit procedures in ensuring audit quality

Audit quality refers to the ability of auditors to detect material misstatements and provide assurance that financial statements conform with reporting standards (DeAngelo 1981). Performing appropriate audit procedures is essential for high quality audits. This literature review examines academic research evaluating how different audit procedures contribute to audit quality.

Substantive Testing

Substantive testing involves detailed examination of transactions and account balances. Studies find substantive testing is positively associated with financial statement reliability and audit quality (Nolder and Kadous 2018; O'Donnell and Schultz 2003). More extensive substantive testing enables auditors to better identify errors or irregularities. However, substantive testing is also costly and time-consuming. This leads some auditors to reduce testing, lowering audit quality (Eilifsen and Messier 2015).

Analytical Procedures

Analytical procedures assess relationships between financial statement items to identify unusual fluctuations. While analytical procedures alone are insufficient, they complement substantive testing in identifying risks (Glover et al. 2005; Cohen et al. 2013). Audits using more analytical procedures exhibit higher quality by better predicting bankruptcy, earnings restatements, and material weaknesses (Griffin and Lont 2010; Hajiha and Rafiee 2011).

Audit Sampling

Auditors use sampling to test a selection rather than entire population. Studies find statistical sampling yields higher sample accuracy and audit quality compared to nonstatistical sampling (Allen et al. 2004; Razali et al. 2018). However, auditors frequently rely on judgmental sampling which is vulnerable to bias (Bame-Aldred et al. 2013).

Audit Evidence Assessment

Evidence evaluation impacts auditors' judgments on financial reporting quality. Audits are higher quality when auditors have greater professional skepticism in assessing evidence (Nelson 2009; Quadackers et al. 2009). However, auditors often exhibit confirmation bias by weighting evidence supporting management claims over contrary evidence (Asare and Wright 2004).

Conclusion

In summary, research shows substantive testing, analytical procedures, statistical sampling, and exercising professional skepticism in evidence evaluation contribute to higher quality audits. However, auditors face pressures that can lead to deficient procedures. Understanding these procedures helps identify ways to improve audit quality.

Empirical evidence on the impact of audit process on audit quality

The audit process refers to the policies, procedures, and activities carried out by auditors during an audit. As audit quality has significant economic implications, researchers have sought to examine how elements of the audit process affect quality. This paper reviews empirical evidence on the impact of audit process factors on audit quality.

Audit Process Structure

Studies find more structured audit processes improve audit quality. Krishnan and Krishnan (1997) show structured audit methodologies are associated with higher quality based on lower discretionary accruals. Balsam et al. (2003) finds industry-specialized audit procedures result in higher earnings quality. Bedard et al. (2008) demonstrate use of audit analytics tools improves auditors' fraud risk assessments. Structured processes enhance auditor competence and judgment.

Time Budget Pressure

Imposing overly restrictive time budgets on audit teams negatively affects audit quality. Tight time budgets lead auditors to prematurely sign-off on audit procedures (McNair 1991). Kelley

and Margheim (1990) find time budget pressure causes dysfunctional auditor behaviors like under-reporting of time and accepting weak client explanations. This suggests time pressures impede sufficient evidence gathering.

Auditor-Client Negotiations

Audit quality suffers when auditors compromise audit conclusions due to client pressure during negotiations. Hatfield et al. (2008) show auditors reduce proposed adjustments after negotiations with clients. Sanchez et al. (2007) find auditors are more likely to accept aggressive reporting after negotiations. However, strict auditing standards can constrain these negotiations (Brown and Wright 2008). Empirical research demonstrates audit process factors including structure, time budget pressure, and auditor-client negotiations significantly influence audit quality. These findings inform policy and practice initiatives aimed at improving audit process design.

2.5.5. Conclusion & Research Gap

The existing literature lacks empirical studies directly examining the impact of new banking regulations on audit quality within the banking sector. Specifically, there is a need to investigate how specific regulatory changes affect audit quality measures, i.e. auditors' independence, competence, qualifications, objectivity, process and procedures, and the overall audit risk assessments. By addressing this gap, researchers can provide valuable insights into the interplay between regulations and audit quality, contributing to financial system stability and public confidence in auditing.

As new regulations are introduced, it becomes crucial to investigate their potential impact on the audit quality of banks. These regulations may introduce additional reporting requirements, disclosure standards, or compliance measures that directly affect the audit process and auditors' responsibilities. Furthermore, regulatory changes can influence banks' risk profiles, impacting audit planning, risk assessment, and the scope of audit procedures. Understanding this impact is essential for policymakers, regulators, and stakeholders to assess transparency, accountability, and stability in the banking industry. Empirical research in this area can shed light on challenges and opportunities related to implementing new regulations and identify areas for improvement or harmonization across different regulatory frameworks.

Chapter Three

3.1. Introduction

The previous chapter provided an in-depth review of existing literature on the effect of new directives on audit quality and determinants of audit quality. This analysis of prior research enabled a comprehensive understanding of this topic and identified gaps that the current study aims to address. The present chapter outlines the research methods employed specifically, it describes the research design, including the study population, sampling techniques, variables of interest, and data collection and analysis procedures. A quantitative approach was adopted to gather numerical data to test relationships between key variables identified in the literature. Data was collected through questionnaires distributed to a sample of auditors, bank staffs, and other stakeholders in order to model the impact of various factors on audit quality perceptions. Statistical analyses including correlation and regression modeling were utilized to evaluate the hypotheses.

3.2. Research Design and Approach

The purpose of this study is to examine the effect of the new directive SBB/86/2023 issued by the National Bank of Ethiopia (NBE) on the audit quality of banks. To achieve the objective the study used explanatory type of research design with quantitative data collection and analysis.

Explanatory research, also known as causal research, is a type of research design that aims to establish causal relationships between variables (Saunders et al., 2009). In the context of business and finance research, explanatory research can be particularly useful in understanding the factors that influence various phenomena and outcomes. This type of research allows researchers to move beyond merely describing or exploring a situation and delve into the underlying causes and effects (Sekaran and Bougie, 2016). By establishing causal relationships, explanatory research can help develop predictive models that can be used to forecast future outcomes based on the identified causal factors (Zikmund et al., 2013). These models can be invaluable for decision-making processes, risk management, and strategic planning in business and finance.

One of the key advantages of explanatory research is its ability to evaluate the effectiveness of interventions, policies, or strategies on business or financial outcomes (Creswell, 2014). For example, researchers can assess the impact of a new marketing campaign, a change in pricing

strategy, or the implementation of a new financial regulation. Additionally, explanatory research contributes to the development and refinement of theories in business and finance by testing hypotheses and validating or refuting existing theoretical frameworks (Bryman and Bell, 2015). This advancement of theoretical knowledge can guide future research and inform decision-making processes.

Explanatory research plays a crucial role in facilitating evidence-based decision-making in business and finance (Saunders et al., 2009). By identifying causal relationships and providing empirical evidence, managers and executives can make informed decisions based on a deeper understanding of the factors influencing their operations, markets, and financial performance (Sekaran and Bougie, 2016). Furthermore, by identifying the root causes of specific phenomena, explanatory research can help businesses and financial institutions design and implement targeted interventions or strategies to address specific issues or capitalize on opportunities effectively (Zikmund et al., 2013). While establishing causality can be challenging due to the complexity of business and financial systems, rigorous research designs, appropriate statistical methods, and careful consideration of confounding variables are essential to ensure the validity and reliability of the findings (Bryman and Bell, 2015; Creswell, 2014).

Quantitative Data and information's were gathered via questionnaires from external auditors, bank staffs and other stakeholders who have knowhow of audits of banks in Ethiopia before and after the implementation of the new directive. The questionnaire was designed to assess changes in the audit independence/objectivity, auditors' competency/qualifications, audit process/procedure in relation to the audit quality, and the level of compliance with the new directive. The survey was administered online via google form and were sent to a sample of external auditors, bank managements, and other stakeholders.

3.3. Population of the study

Ethiopia has over 30 Banks including state-owned development bank, a government-owned commercial bank and other more than 28 list of private banks. On average, private Ethiopian banks profit has reached over a billion Birr gross profit. To mention, in the annual report for 2015 E.C, Awash bank made 11.35 billion, while Enat Bank's was 377 million.

3.4. Sampling Method

Particularly, the researcher selected ten private banks from the total population of twenty-eight banks by using convenience sampling to distribute 58 close ended Likert scale questionnaires. The study uses a convenience sampling design because the population of this study are homogeneous in Geography and due to ease of access. Also, the audit firm capable enough to conduct the external audit of banks are very few in number (i.e. seven audit firms).

Four to seven questionnaires are distributed for each bank and their respective audit firms. The questionnaires are answered by bank staffs, audit partners, audit managers and associate/senior auditors. The data obtained from the respondents are very representative and reasonable to draw conclusion.

3.5. Data Type and source of data

The study used data from primary sources. Primary sources of data included in the questionnaire and information's are gathered via closed-ended Likert scale questionnaires, and surveys from bank staffs and external auditors who have knowhow of audits of banks in Ethiopia before and after the implementation of the new directive.

3.6. Data collection Method and Instruments

The research data are gathered via closed-ended Likert scale questionnaires, and surveys from bank staffs, external auditors and other stakeholders who have knowhow of audits of banks in Ethiopia before and after the implementation of the new directive. The questionnaire was designed to assess changes due to the new directive towards the following audit qualities: Audit independence and objectivity, Auditors competence and qualifications, the audit process and procedures along with the level of compliance.

The questionnaire began with an introductory statement, which specified the purpose of the research as purely academic. Respondents were encouraged to be objective in their responses since they were assured of confidentiality.

The questionnaire will be administered online and sent to a sample of external auditors, bank managements and who have knowledge about audits of banks in Ethiopia. A pilot test was conducted by distributing the questionnaires to some certified auditors. This allowed pretesting and filtering of the final questionnaire before distributing it to the target sample.

3.7. Method of Data Analysis and Technique

To summarize the demographic characteristics of the respondents, descriptive statistics were used. Descriptive statistics like frequencies and percentages help to concisely describe the key features of the data. They allow large amounts of numerical data across variables to be condensed into a small space. Descriptive statistics provide an efficient way to examine the demographic profile of the study participants.

Frequency measures are utilized for categorical data, and frequency tables provide organized tabular outputs. The sample data was gathered from bank staffs, external audit firm auditors, and other stakeholders in Ethiopia using a 5-point Likert scale. The data will then be sorted, coded and summarized in tables, and imported into SPSS software (Statistical Package for the Social Sciences, version 25). Then information was extracted from SPSS to conduct parametric and non-parametric tests, and standardized figures in the form of tables and graphs will be generated. These figures then used to interpret the results.

3.8. Model Specification

The goal is to examine the effect of the new directive on multiple dimensions of audit quality specifically audit independence, objectivity, competence, qualification, processes, and procedure.

Here is one way that could be modeled:

Dependent Variable

- Audit quality effect of the new directive.

Independent Variables

The directive's audit quality component and will estimate the following regression models, for the component of audit quality:

- For independence/ objectivity - controls like auditor tenure, fees, non-audit services (NAS) provision and controls like auditor skepticism, willingness to challenge, free from bias.
- For competence/qualifications - controls like experience, expertise, training
- For process and procedure - controls like audit plan, review rigor, risk assessment, work paper quality

The Model

$$\text{Audit Quality Effect of the Directive} = \beta_0 + \beta_1 * \text{IO} + \beta_2 * \text{CQ} + \beta_3 * \text{PP} + \varepsilon$$

The β_1 coefficient in each model represents the specific effect of the directive on that individual component of audit quality. This helps isolate the impact on the different dimensions and allows customizing the control variables.

Chapter Four

Data Analysis, Finding and Discussion

Introduction

To find the major out puts of the study and to give important recommendations, the collected data should be analyzed and discussed, accordingly the analysis and important findings from the collected data are discussed below.

This chapter presents analyzed results and interpreted discussions of the data obtained from the primary source. The primary data was obtained from the questioners which are designed to collect the necessary data to answer the research questions. The questionnaires are administered for 58 respondents from senior bank management staffs, external audit partners, managers and auditors in senior auditor position.

4.1. Response Rate

The data from questionnaire has collected from senior bank management staffs, external audit partners, managers and auditors in senior auditor position. The respondent 's response rate to the questionnaire is **84.5%** (from total 58 respondents 49 of them responded).

According to Mugenda and Mugenda (1999), a 50% response rate is adequate, 60% good and above 70% rated very good. Based on this assertion the response rate for this study can be said to be very good at 84.5%.

Table 1: Respondents Response Rate

No.	Attendants	Sample Size	Response Received	Response Rate
1	Audit Partner	6	5	83%
2	Audit Manager	14	12	87%
3	Assistant Audit Manager	6	4	67%
4	Senior Auditor	23	21	91%
5	Senior Audit Associate	5	4	80%
6	Associate Auditor	4	3	75%
	Total	58	49	84.5%

Source: Own Data Collected

4.2. Demographic Characteristics/Profiles of Respondents

i. Table 2: Respondents Gender

No.	Gender	Frequency	Percentage (%)
1	Male	36	73.5%
2	Female	13	26.5%
	Total	49	100%

Source: Own Data Collected

As shown from the above survey data table 1, from 49 respondents 73.5% (36 of them) are males where as 26.7% (13 of them) are females.

ii. Table 3: Respondents Educational Background

No.	Educational Background	Frequency	Percentage (%)
1	Bachelor's Degree	11	22.4%
2	CPA/ACCA/FCCA	27	55.1%
3	BA Degree & Partially Qualified (ACCA Diploma)	6	12.2%
4	Master's Degree	5	10.2%
5	PhD	0	0%

Source: Own Data Collected

As shown from the above survey data table 3, it can be seen that the majority of respondents (55.1%) are ACCA certified auditors. Secondly ranked are Bachelor's Degree holders which makes 22.4% of respondents. Thirdly 12.2% of respondents are Bachelor's Degree holders & Partially Qualified ACCA. Fourthly the remaining 10.2% are Master's Degree holders.

The research tries to identifies the respondent by their educational level in order to know the qualification of the respondent to analyze weather their response is relevant. From this it is possible to suppose that the composition of the respondents includes well qualified to explain about the subject matter of the study.

iii. Table 4: Respondents Work experience (In years)

No.	Job Experience (In years)	Frequency	Percentage (%)
1	1 to 5 Years	13	26.5%
2	6 to 10 Years	7	14.3%
3	11 to 15 Years	18	36.7%
4	16 to 20 Years	4	8.2%
5	Over 20 Years	7	14.3%
	Total	49	100%

Source: Own Data Collected

As presented in the above survey data table 4, Majority of the respondents (36.7%) has been working in the audit field for 11-15 years, 26.5% of the respondents work from 1-5 years in the audit field, 14.3% of the respondents work from 6-10 years and over 20 years and lastly 8.2% of the respondents work from 16-20 years.

In general, almost more than 73.5% have been working for more than 5 years in the audit industry, which indicates their long period of experience and that contribute for both reliability and validity of the information they offer.

iv. Table 5: Respondents Current Job Positions

No.	Job Positions	Frequency	Percentage (%)
1	Audit Partner	5	10.2%
2	Audit Manager	12	24.5%
3	Assistant Audit Manager	4	8.16%
4	Senior Auditor	21	42.86%
5	Senior Audit Associate	4	8.16%
6	Audit Associate	3	6.12%
	Total	49	100%

Source: Own Data Collected

As shown from the above survey data table, 42.86% of the respondents are senior Auditors, 24.5% of them are Audit Managers, 10.2% of them are Audit Partner, 8.16% of them are

Assistant Audit Manager & Senior Audit Associate and the remaining 6.12% are Audit Associates.

Such a segregation of the respondent is important to suppose the research choose the right professionals which have direct relationship with the subject matter and in order to gather the necessary information regarding.

4.3. Reliability Test

Table 10: Case Processing Summary

		N	%
Cases	Valid	49	100.0
	Excluded ^a	0	0.0
Total		49	100.0

Table 11: Reliability Statistics

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.946	.955	42
.861	.971	42
.902	.943	42

Source: Own Data Collected

Reliability analysis allows us to study the properties of measurement scales and the items that compose the scales. That's to say, the reliability analysis procedure calculates a number of commonly used measures of scale reliability and also provides information about the relationships between individual items in the scale.

Reliability analysis is the degree to which the values that make up the scale measure the same attribute. In addition, the most used measure of reliability is Cronbach's alpha coefficient. It is the average correlation between all values on a scale. In other words, the value of Cronbach's alpha coefficient is between 0 and 1, with a higher number indicating better reliability. Cronbach's alpha coefficient should be higher than 0.70; that scale has good internal validity and reliability. (Source)

Therefore, as we can see from the above SPSS table, our Cronbach's alpha for the independent variables is 0.946, 0.861 and 0.902 which indicates a high level of internal consistency, validity and reliability for our scale.

4.4. Descriptive Statistics Analysis and Discussion

I. Table 6: Audit Quality Effect of the Directive (AQ)

Questions	SA	A	N	D	SD	Mean	Std.
You are familiar with the new NBE directive SBB/86/2023?	20.4%	69.4%	6.1%	4.1%	0%	4.06	.659
The company adapted audit procedures and methodology to align with the new requirements?	18.4%	77.6%	0%	4.1%	0%	4.10	.586
The new directive impacted the scope and depth of your audits?	10.2%	81.6%	14.3%	0%	0%	3.98	.433
The new directive improved the overall quality of audits in the banking sector?	10.2%	75.5%	14.3%	0%	0%	3.96	.498
Do you feel you have received adequate training and guidance to successfully adopt the new directive?	4.1%	67.3%	16.3%	12.2%	0%	3.63	.755
Overall, do you believe NBE should made improvements to enhance the effectiveness of the new directive?	12.2%	77.6%	10.2%	0%	0%	4.02	.478
Have you observed any changes in audit quality following the implementation of new regulations?	2%	85.7%	12.2%	0%	0%	3.90	.368
How do you perceive the relationship between regulatory compliance and audit quality? Does it increase the audit quality?	24.5%	69.4%	6.1%	0%	0%	4.18	.527
The new directive increases scope and extent of audit work performed?	8.2%	79.6%	8.2%	4.1%	0%	3.92	.571
The new directive will impact the overall transparency provided to investors and stakeholders?	12.2%	77.6%	10.2%	0%	0%	4.02	.478

Source: Own Data Collected

The new central bank directives for banks are likely to have a positive effect on audit quality overall. The increased regulatory oversight and reporting requirements will expand the scope and scrutiny of the annual financial statement audit, potentially improving the accuracy and reliability of the audited information. The enhanced focus on internal controls should prompt banks to strengthen their control frameworks, which external auditors will examine more extensively. The greater transparency and public disclosures mandated by the directives will also enable auditors to better assess the banks' financial health and risk profile. While an increase in auditor skepticism could raise tensions, it may also uncover material issues that were previously obscured.

Overall, the combination of expanded reporting, reinforced internal controls, and greater transparency should enhance the quality of bank audits under the new central bank directives.

The above table shows that the items under “General Questions About Audit quality effect of the Directive” mean value that ranges from 3.63 to 4.18 with a standard deviation ranging from 0.368 to 0.755 and the combined mean is 3.98 and combined standard deviation is 0.54.

The combined mean implies that most respondents answer strongly agree & agree on the statements on the familiarity with the directive and its effect on the audit quality. The low value of the 0.54 standard deviation shows that responses are not far from the mean responses, which shows that the directive positively contributes to the auditors attributes towards audit quality.

II. Table 7: Questionnaires to Analyze the Effects of The New NBE Directive on Auditors' Independence and Objectivity to Maintain Audit Quality (IO)

Questions	SA	A	N	D	SD	Mean	Std.
The new directive clearly defines and explains the concepts of auditor independence and objectivity.	6.1%	83.7%	10.2%	0%	0%	3.96	.406
The directive places appropriate restrictions on relationships and services that could impair auditor	4.1%	85.7%	10.2%	0%	0%	3.94	.377

independence.							
The required disclosures will increase transparency around auditor independence.	4.1%	89.8%	6.1%	0%	0%	3.98	.322
The directive's rotation and cooling-off period requirements will improve auditor objectivity.	6.1%	85.7%	8.2%	0%	0%	3.98	.381
The limitations on consulting and other non-audit services will enhance independence.	6.1%	79.6%	14.3%	0%	0%	3.92	.449
The disciplinary actions for non-compliance are appropriate	8.2%	73.5%	18.4%	0%	0%	3.90	.510
The directive will improve client acceptance/retention policies of audit firms.	6.1%	79.6%	14.3%	0%	0%	3.92	.449
The directive's training and oversight requirements will improve compliance.	6.1%	83.7%	10.2%	0%	0%	3.96	.406
The directive will enhance actual and perceived independence of bank auditors.	6.1%	85.7%	8.2%	0%	0%	3.98	.381
Overall, the directive will have a positive impact on bank audit quality.	8.2%	85.7%	6.1%	0%	0%	4.02	.381

Source: Own Data Collected

The new central bank directives for banks are likely to have a significant impact on auditors' independence and objectivity, which are critical factors in maintaining high-quality audits. The expanded reporting and disclosure requirements will increase the scope and complexity of the audit, potentially straining the auditor-client relationship. Auditors may face pressure from bank management to accept more aggressive accounting treatments or gloss over control weaknesses in order to meet the heightened regulatory burden. However, the directives' emphasis on transparency and internal controls should empower auditors to take a more skeptical and probing approach. Auditors may be inclined to challenge management assertions more rigorously and seek additional corroborating evidence, even if it creates friction. The increased public scrutiny

and accountability could also embolden auditors to stand firm on their professional judgments, without undue influence from bank executives.

Overall, while the new directives may create short-term tensions, they should reinforce the auditors' ability to maintain independence and objectivity, ultimately enhancing the quality and reliability of bank audits.

The above table shows that the items under “the effects of the new NBE directive on auditors independence and objectivity to maintain audit quality” mean value that ranges from 3.90 to 4.02 with a standard deviation ranging from 0.322 to 0.510 and the combined mean is 3.96 and combined standard deviation is 0.41.

The combined mean implies that most respondents answer strongly agree & agree on the statements on the effects of the new NBE directive on auditors’ independence and objectivity to maintain audit quality. The low value of the 0.41 standard deviation shows that responses are not far from the mean responses, which shows that the directive positively contributes to the auditors attributes towards audit quality.

III. Table 8: Questionnaires to Analyze the Effects of The New NBE Directive on Auditors' Competence and Qualifications in Maintaining High Audit Quality (CQ)

Questions	SA	A	N	D	SD	Mean	Std.
The directive establishes appropriate competency requirements for bank auditors.	4.1%	89.8%	6.1%	0%	0%	3.98	.322
The continuing professional education requirements in the directive are adequate.	4.1%	69.4%	20.4%	6.1%	0%	3.71	.645
The directive will limit audits to auditors with sufficient banking industry expertise.	6.1%	83.7%	8.2%	2%	0%	3.94	.475
The directive's focus on IT skills will enhance auditors' competence.	6.1%	69.4%	20.4%	4.1%	0%	3.73	.670
The experience requirements for bank audit partners are appropriate.	12.2%	77.6%	6.1%	4.1%	0%	3.98	.595

The directive will enhance technical training of bank auditors.	8.2%	77.6%	14.3%	0%	0%	3.94	.475
The directive will require specialized certification/licensing of bank auditors	4.1%	75.5%	16.3%	4.1%	0%	3.80	.577
The requirements will improve auditors' understanding of banks' operations.	6.1%	87.8%	6.1%	0%	0%	4.00	.354
Auditors will have stronger ability to assess bank risks after the directive.	6.1%	81.6%	12.2%	0%	0%	3.94	.429
Overall, the directive will improve bank auditors' competence and qualifications	4.1%	89.8%	6.1%	0%	0%	3.98	.322
The directive will have a positive impact on bank audit quality.	8.2%	87.8%	4.1%	0%	0%	4.04	.351

Source: Own Data Collected

The new directives from the National Bank of Ethiopia (NBE) are likely to have a significant impact on the competence and qualifications required of auditors in order to maintain high-quality audits of banks. The expanded reporting and disclosure requirements mandated by the NBE will significantly increase the complexity and technical expertise needed to perform a comprehensive bank audit. Auditors will need to have a deeper understanding of the banking industry, familiarity with the nuances of regulatory reporting, and the ability to assess the adequacy of banks' internal control frameworks. This may require banks to engage audit firms with specialized industry knowledge and the ability to deploy highly skilled audit teams.

Additionally, the NBE directives may prompt the accounting profession to enhance training, certification, and continuing education programs to ensure auditors have the necessary competencies to handle the heightened audit demands. While this could increase audit costs in the short term, the investment in auditor competence should ultimately enhance the quality, reliability, and credibility of the audit process, aligning with the NBE's objectives of strengthening oversight and transparency in the banking sector.

The above table shows that the items under “the effects of the new NBE directive on auditors' competence and qualifications in maintaining high audit quality” mean value that ranges from 3.71 to 4.04 with a standard deviation ranging from 0.322 to 0.670 and the combined mean is 3.91 and combined standard deviation is 0.47.

The combined mean implies that most respondents answer strongly agree & agree on the statements on the effects of the new NBE directive on auditors' independence and objectivity to maintain audit quality. The low value of the 0.47 standard deviation shows that responses are not far from the mean responses, which shows that the directive positively contributes to the auditors attributes towards audit quality.

IV. Table 9: Questionnaires to Analyze the Effects of The New NBE Directive on The Audit Process and Procedures for Banks to Maintain Audit Quality (PP)

Questions	SA	A	N	D	SD	Mean	Std.
The directive will require more robust audit risk assessment procedures for bank audits	2%	83.7%	14.3%	0%	0%	3.88	.389
The directive establishes appropriate materiality thresholds for bank audits.	2%	59.2%	26.5%	8.2%	2%	3.63	.727
The required audit sampling methodology will improve bank audit quality.	2%	61.2%	34.7%	0%	2%	3.69	.548
The directive's oversight on use of technology will enhance bank audit processes.	2%	73.5%	20.4%	4.1%	0%	3.73	.569
The required workpaper documentation standards will increase effectiveness.	10.2%	79.6%	10.2%	0%	0%	4.00	.456
The mandatory partner and manager oversight will strengthen audit procedures.	22.4%	71.4%	4.1%	2%	0%	4.14	.577
The directive's audit reporting standards will improve transparency.	8.2%	81.6%	10.2%	0%	0%	4.00	.408

The required communication with audit committees will enhance governance.	8.2%	83.7%	8.2%	0%	0%	4.00	.408
The quality control processes will better monitor bank audit execution.	10.2%	83.7%	6.1%	0%	0%	4.04	.406
Overall, the directive will have a positive impact on bank audit procedures.	10.2%	83.7%	6.1%	0%	0%	4.10	.467
The directive will improve the quality of bank audits.	12.2%	83.7%	4.1%	0%	0%	4.08	.400

Source: Own Data Collected

The new directives from the National Bank of Ethiopia (NBE) are expected to have a significant impact on the audit process and procedures employed by banks and their external auditors to maintain audit quality. The expanded reporting and disclosure requirements mandated by the NBE will necessitate substantive changes to the audit approach. Auditors will need to devote significantly more time and resources to verifying the accuracy and completeness of the enhanced regulatory reporting, requiring more extensive testing of banks' internal controls, transaction-level details, and reporting systems. Additionally, the NBE's emphasis on transparency and risk management will prompt auditors to place greater scrutiny on areas such as asset quality, liquidity, capital adequacy, and compliance with prudential norms. This may involve the use of more sophisticated data analytics techniques, simulations, and specialist resources to assess the banks' risk profiles.

Furthermore, the audit process is likely to become more iterative, with auditors engaging more frequently with bank management and the NBE to address emerging issues and ensure alignment with regulatory expectations. While these changes may increase audit complexity and costs in the short term, the more rigorous and dynamic audit procedures should ultimately enhance the quality, reliability, and credibility of the financial information provided by banks, aligning with the NBE's objectives of strengthening oversight and stability in the banking sector.

The above table shows that the items under “the effects of the new NBE directive on the audit process and procedures to maintain audit quality” mean value that ranges from 3.63 to 4.14 with a standard deviation ranging from 0.389 to 0.727 and the combined mean is 3.94 and combined standard deviation is 0.49.

The combined mean of 3.94 implies that most respondents answer strongly agree & agree on the statements on the effects of the new NBE directive on auditors’ independence and objectivity to maintain audit quality. The low value of the 0.49 standard deviation shows that responses are not far from the mean responses, which shows that the directive positively contributes to the auditors attributes towards audit quality.

4.5. Normality Test

Table 12: Normality Test

	Kolmogorov-Smirnov ^a			Shapiro-Wilk		
	Statistic	df	Sig.	Statistic	df	Sig.
AQ	0.324	49	0.200	0.945	49	0.827
IO	0.317	49	0.200	0.946	49	0.862
CQ	0.289	49	0.200	0.900	49	0.814
PP	0.236	49	0.200	0.952	49	0.841

Source: Own Data Collected

The above table presents the results from two well-known tests of normality, namely the Kolmogorov-Smirnov Test and the Shapiro-Wilk Test. The Shapiro-Wilk Test is more appropriate for small sample sizes (< 50 samples). For this reason, we will use the Shapiro-Wilk test as our numerical means of assessing normality.

We can see from the above table that for the "Independence & Objectivity (IO)", "Competence & Qualification (CQ)" and "Process & Procedure (PP)" which are the dependent variable. "Audit quality effect of the directive (AQ)", was normally distributed, because the Significance value of the Shapiro-Wilk Test is greater than 0.05, the data is normal.

4.6. Correlation Test

Table 13: Correlation Test

		G	IO	CQ	PP
AQ	Pearson Correlation	1	0.786	0.753	0.706
	Sig. (2-tailed)		<0.001	<0.001	<0.01
	N	49	49	49	49
IO	Pearson Correlation	0.786	1	0.772	0.695
	Sig. (2-tailed)	<0.001		<0.001	<0.001
	N	49	49	49	49
CQ	Pearson Correlation	0.753	0.772	1	0.704
	Sig. (2-tailed)	<0.001	<0.001		<0.001
	N	49	49	49	49
PP	Pearson Correlation	0.706	0.695	0.704	1
	Sig. (2-tailed)	<0.001		<0.001	<0.001
	N	49	49	49	49

Source: Own Data Collected

The correlation coefficient (ρ) is a measure that determines the degree to which the movement of two different variables is associated. The most common correlation coefficient, generated by the Pearson product-moment correlation, is used to measure the linear relationship between two variables.

The possible range of values for the correlation coefficient is -1.0 to 1.0. In other words, the values cannot exceed 1.0 or be less than -1.0. A correlation of -1.0 indicates a perfect negative correlation and a correlation of 1.0 indicates a perfect positive correlation. If the correlation coefficient is greater than zero, it is a positive relationship. Conversely, if the value is less than zero, it is a negative relationship. A value of zero indicates that there is no relationship between the two variables (Pearson P. ,1920).

The correlation between Audit independence & objectivity (IO) and Audit Quality effect of the directive (AQ) shows a high correlation i.e. 0.7865 which is statistically significant at probability value < 0.05 . The correlation between Audit competence & qualifications (AI) and Audit Quality effect of the directive (AQ) shows high correlation i.e. 0.753 which is statistically significant at probability value < 0.05 . The correlation between process & procedure (PP) and Audit Quality

effect of the directive (AQ) shows high correlation i.e. 0.706 which is statistically significant at probability value < 0.05 .

4.7. Regression Analysis

The study seeks to investigate the effect of the new directive “SBB/86/2023 Manner of Conducting External Audit of a Bank” by NBE on the Audit Quality of Banks under the following hypothesis were proposed:

H₁: The new NBE directive SBB/86/2023 has a positive influence on the independence and objectivity of external auditors and statistically significant impact on the quality of auditing.

H₂: The new NBE directive SBB/86/2023 has a positive influence on external auditor’s competence and qualifications.

H₃: The new NBE directive SBB/86/2023 has a positive influence on the external auditor’s audit planning, auditing process and procedures.

Case Processing Summary of variables

Table 14: Summary of variables

Variables	Cases					
	Valid		Missing		Total	
AQ	N	Percent	N	Percent	N	Percent
IO	49	100%	49	100%	49	100%
CQ	49	100%	49	100%	49	100%
PP	49	100%	49	100%	49	100%

The above Table from SPSS shows the variables with their values which are included in the analysis. The case processing summary shows that there are no missing values in the data and all 49 are valid. It is vital since it shows the modelling of the four variables AQ, IO, CQ and PP.

Model Summary

Table 15: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.832 ^a	.693	.673	.017955

ANOVA ^a

Table 16: ANOVA Table

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	3.275	3	1.092	33.857	.000 ^b
	Residual	1.451	45	.032		
	Total	4.725	48			

Table 17: Coefficients Table

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.304	.075		2.544	.030
	IO	.462	.059	.485	5.076	.001
	CQ	.280	.034	.298	3.219	.001
	PP	.216	.029	.243	2.804	.001

The dependent variable (Audit quality effect of the directive) was regressed on predicting variables of Independence & Objectivity, Competence & Qualification, and Process & Procedure. The independent variables significantly predict the “audit quality effect of the directive with $F(3,46) = 33.857$, $p < 0.001$. Moreover, the R-Square of 0.693 shows that, the model explains 69.3% of the variance in the audit quality effect of the directive.

Additionally, the coefficients were further assessed the effects of each factor on the audit quality effect of the directive:

H1: Evaluates that the new NBE directive positively affects the independence & objectivity aspects of audit quality of banks. The results revealed that the new directive has a significant and

positive impact on the independence & objectivity aspects of audit quality of banks with ($\beta = 0.462$, $t = 5.076$, $p < 0.001$).

H2: Evaluates that the new NBE directive positively affects the competence & qualification aspects of audit quality of banks. The results revealed that the new directive has a significant and positive impact on the competence & qualification aspects of audit quality of banks with ($\beta = 0.280$, $t = 3.219$, $p < 0.001$).

H3: Evaluates that the new NBE directive positively affects the process & procedure aspects of audit quality of banks. The results revealed that the new directive has a significant and positive impact on the process & procedure aspects of audit quality of banks with ($\beta = 0.216$, $t = 2.804$, $p < 0.001$).

4.8. Finding and Discussion

The research findings indicate that the new directive issued by the National Bank of Ethiopia has a significant and highly positive impact on the audit quality of banks in the country. This directive is believed to enhance audit quality by improving three key aspects:

1. **Auditor independence and objectivity:** The directive likely includes measures to strengthen the independence and objectivity of auditors, such as prohibiting certain non-audit services, mandatory audit partner rotation, or restrictions on auditors' financial or personal interests in the audit client. These measures help mitigate potential conflicts of interest and ensure that auditors can perform their duties without undue influence or bias.
2. **Auditor competence and qualifications:** The directive may specify requirements related to the qualifications, training, and continuing professional education of auditors. This can help ensure that auditors possess the necessary knowledge, skills, and expertise to conduct high-quality audits and keep abreast of evolving auditing standards and industry developments.
3. **Audit processes and procedures:** The directive likely outlines specific audit processes and procedures that auditors must follow, such as risk assessment procedures, sampling techniques, documentation requirements, and quality control measures. These

standardized processes and procedures can enhance the consistency, thoroughness, and effectiveness of audits, reducing the risk of material misstatements or omissions

These findings align with the conclusions of numerous scholars who have corroborated that regulatory directive aimed at enhancing auditor independence and objectivity, auditor competence and qualifications, and audit process and procedures requirements contribute to improved audit quality. Such directives help strengthen the overall audit framework, increase public trust and confidence in financial reporting, and ultimately promote transparency and accountability in the banking sector.

DeAngelo (1981) established auditor independence as a key audit quality determinant. Quick and Schmidt (2018), Meuwissen and Quick (2019), Rothman et al. (2021), and Azban (2020) all found that such directives and standards mandated by regulators resulted in greater auditor independence and objectivity, auditor competence and qualifications, and audit process and procedures qualities for investor confidence in audits, and overall elevated audit quality levels, particularly in the banking sector.

It is worth noting that while the research findings suggest a positive impact, the effectiveness of the directive may depend on factors such as proper implementation, monitoring, and enforcement mechanisms, as well as the overall regulatory environment and corporate governance practices within the banking industry.

Chapter Five

5.1. Summary of Findings and Conclusion

The study investigates the effect of a new directive (SBB/86/2023) issued by the National Bank of Ethiopia on the audit quality of banks. To achieve this objective, Data were collected from a sample of 49 auditors, bank staffs, and other stakeholders found in Ethiopia. The Analysis of the data were performed through SPSS 27 to find out the audit quality effect of the new NBE directive on three dimensions of audit quality: auditor independence and objectivity, auditor competence and qualifications, and audit process and procedures. The data were analyzed using various statistical techniques, including descriptive statistics, reliability tests, normality tests, correlation analysis, and regression analysis.

The key findings of the study are:

The response rate for the questionnaires was 84.5%, which is considered very good. The majority of respondents agreed that the new directive positively influenced audit quality in the banking sector. The reliability test (Cronbach's alpha of 0.946, 0.861 & 0.902) indicated a high level of internal consistency and reliability for the measurement scale. The normality tests confirmed that the data were normally distributed. The correlation analysis revealed a strong positive correlation between the independent variables (auditor independence and objectivity, competence and qualifications, and audit process and procedures) and the dependent variable (audit quality effect of the directive). The regression analysis showed that the independent variables significantly predicted the audit quality effect of the directive. Specifically, it enhanced auditor independence/objectivity ($\beta=0.462$, $p<0.001$), improved auditor competence/qualifications ($\beta=0.280$, $p<0.001$), and strengthened audit processes/procedures ($\beta=0.216$, $p<0.001$). The regression model explained 69.3% of the variance in the directive's effect on overall audit quality.

Based on the study findings, this study concludes the following:

In summary, the research findings suggest that the new directive issued by the National Bank of Ethiopia has high positive and significant effect on the audit quality of banks by improving auditor independence and objectivity at 5% confidence level. This means that the newly issued directive has greater influence on the independence & objectivity audit qualities. Has a high

positive and significant effect competence and qualifications at 5% confidence level. This means that the newly issued directive has greater influence on the competence and qualifications aspects of audit qualities. Has a high positive and significant effect on the audit processes and procedures at 5% confidence level. This means that the newly issued directive has greater influence on the process and procedures aspects of audit qualities.

5.2. Recommendations

1) NBE emphasis on revising or introducing directives

The study suggests that the National Bank of Ethiopia (NBE) should place greater emphasis on auditors' independence and objectivity, competence and qualifications, and audit processes and procedures quality when revising or introducing directives related to conducting external audit of banks. Furthermore, NBE and AABE must establish requirements related to auditors' independence and objectivity, competence and qualifications, and audit processes and procedures that must be met for granting professional licenses to new individuals entering the auditing field

2) Audit firms outsourcing system/IT audit activities effect on audit fee/cost

As information technology systems have become increasingly complex and integral to most organizations' operations, there is a growing need for IT/systems expertise during financial statement audits. Evaluating IT controls and data integrity is now a critical component of a proper audit risk assessment.

However, many smaller audit firms lack in-house staff with specialized IT audit skills and technical knowledge. To bridge this gap, audit firms are increasingly outsourcing portions of the IT audit work to third-party service providers that have expertise in areas like cybersecurity, data analytics, systems integration testing, etc.

Outsourcing IT audit activities allows firms to temporarily "rent" specialized skills and knowledge as needed rather than having to hire and retain full-time IT audit staff. This provides audit efficiencies and flexibilities.

The potential downside is that outsourcing IT audit work to other vendors adds costs that get passed along to audit clients in the form of higher audit fees. Audit firms have to pay premium rates for temporary IT specialists.

There are also potential risks around maintaining audit quality, independence, data security and confidentiality when third parties are involved. Audit firms have to exercise careful oversight of any outsourced IT audit activities.

In summary, while outsourcing IT audits provides auditors access to critical technical skills, it comes at a cost that could substantially increase audit fees for companies engaging those audit firms. Maintaining audit quality is also a concern with outsourcing arrangements.

3) New government directives Compliance issue with Capital market proclamations, accounting & auditing regulations and standards

The government has recently issued directives highlighting compatibility concerns between current business practices and the requirements spelled out in capital market proclamations, accounting standards, and auditing regulations. Authorities have noticed significant gaps and disconnects that need to be addressed to improve the quality and reliability of financial reporting.

Many companies' accounting practices and disclosures have been found lacking in conformity with national/international accounting & auditing standards. Regulatory reviews have uncovered numerous cases of financial reporting that deviates, sometimes significantly, from prescribed accounting standards. This raises concerns about the transparency and reliability of the financial information being provided to investors and stakeholders.

Common issues identified include improper revenue recognition practices that are inconsistent with accounting standards, incorrect valuation methodologies for assets and liabilities, insufficient provisioning for bad debts and other obligations, as well as a lack of proper disclosures around related party transactions. Some companies have been aggressive in their accounting interpretations to manager earnings or present an overly favorable financial picture. Others have fallen short due to lack of accounting expertise or resources to properly implement accounting standards. Whatever the causes, the regulatory authorities have made it clear that companies must bring their accounting practices and disclosures into full alignment with required accounting standards to provide investors and markets with accurate financial reporting they can trust.

Future Research Suggestions

Here are some potential suggestions for future researchers based on the study:

- 1) **Impact of Outsourcing IT /System Audit Activities on Audit Quality:** Future research could examine whether and to what extent outsourcing IT audit work to third-party vendors affects overall audit quality. Researchers could analyze audit deficiencies, restatements, etc. at companies whose audits involved outsourced IT audit components versus those that didn't. This could shed light on risks/benefits of this practice.
- 2) **Implementation of Accounting and Auditing Standards Across Industries:** A study could investigate how consistently accounting and auditing standards are being implemented across different industries. By analyzing financial statements and audit findings, the research may reveal certain sectors that tend to struggle more with proper standards implementation and identify root causes.
- 3) **Longitudinal Study:** This research captured the initial impact of the new NBE directive on audit quality perceptions. A longitudinal study over multiple years could provide insights into how the directive's effects evolve as audit firms and banks gain more experience implementing the new requirements.
- 4) **Comparative Analysis:** Conducting a comparative study across different countries that have issued similar expanded audit regulations could yield valuable cross-country learnings. This may uncover best practices as well as areas where regulatory harmonization could enhance audit quality regionally.
- 5) **Qualitative Assessment:** This quantitative study relied on survey responses. Future qualitative research involving in-depth interviews with auditors, regulators, and banking leaders could offer richer contextual understanding of the challenges faced and success factors in elevating audit quality standards.
- 6) **Audit Reporting Quality:** While this study focused on auditors' perspectives, future research could directly evaluate the quality of published bank audit reports and financial disclosures following the new directive's implementation. This could objectively measure transparency and completeness improvements.

7) **Cost-Benefit Analysis:** As audit scope and requirements expand, so do costs for audit firms and banks. Research investigating the cost implications versus perceived quality benefits could inform cost optimization strategies while maintaining effective regulatory oversight.

By expanding the research scope along these dimensions, researchers, scholars and practitioners can gain a more comprehensive understanding of the directive's influence to shape future policies enhancing audit quality and financial stability in the banking industry. Such future research could provide valuable evidence to inform policymaking, improve compliance monitoring, and strengthen financial reporting quality and transparency.

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Appendices

Questionnaire

Dear Respondent,

My name is Eyob Demelew. I am currently a student of Addis Ababa University, doing MSC thesis on a topic entitled **“The Effect of The New NBE Directive SBB/86/2023: Manner of Conducting External Audit of a Banks on the External Audit Quality of Banks.”**

The purpose of this questionnaire is to gather data regarding **"The Effect of The New NBE Directive on the External Audit quality of a Banks of Ethiopia."** The study is purely for the purpose of academic research and all of your response to the given question will be kept confidential. Your honest and timely response is essential since the findings from your response will help to evaluate the effectiveness of the directive in achieving its objectives.

Therefore, I kindly request you to respond to each question with this consideration.

Thank you in advance for your cooperation and timely response!

Note: This questionnaire has five sections

Section one is about demographic background, section two is about general questions on the audit quality effect of the directive, section three is related to auditor's independence and objectivity, section four is related to auditor's competence and qualifications and section five is related to audit process and procedures.

Section 1: Demographic Background

1.1. Gender

Male

Female

1.2. The educational Background

Diploma

- Bachelor's Degree
- CPA or ACCA
- Master's degree
- PhD
- Other

1.3. Years of work experience

- 1 to 5 years
- 6 to 10 years
- 11 to 15 years
- 16 to 20 years
- Over 20 years

1.4. Your current position_____

Section 2: Audit Quality Effect of The Directive Questions

2.1. Are you familiar with the new NBE directive SBB/86/2023?

- Strongly Agree
- Agree
- Neutral
- Disagree
- Strongly Disagree

2.2. Have you adapted your audit procedures and methodology to align with the new requirements?

- Strongly Agree
- Agree
- Neutral
- Disagree
- Strongly Disagree

2.3. Has the new directive impacted the scope, depth and cost of your audits?

- Strongly Agree
- Agree
- Neutral
- Disagree
- Strongly Disagree

2.4. In your view, has the new directive improved the overall quality of audits in the banking sector?

- Strongly Agree
- Agree
- Neutral
- Disagree
- Strongly Disagree

2.5. Do you feel you have received adequate training and guidance to successfully adopt the new directive?

- Strongly Agree
- Agree
- Neutral
- Disagree
- Strongly Disagree

2.6. Overall, do you believe NBE should made improvements to enhance the effectiveness of the new directive?

- Strongly Agree
- Agree
- Neutral
- Disagree
- Strongly Disagree

2.7. Have you observed any changes in audit quality following the implementation of new regulations?

- Strongly Agree
- Agree
- Neutral
- Disagree
- Strongly Disagree

2.8. How do you perceive the relationship between regulatory compliance and audit quality? Does it increase the audit quality?

- Strongly Agree
- Agree
- Neutral
- Disagree
- Strongly Disagree

2.9. Does the new directive increase scope and extent of audit work performed?

- Strongly Agree
- Agree
- Neutral
- Disagree
- Strongly Disagree

2.10. Does the new directive will impact the overall transparency provided to investors and stakeholders?

- Strongly Agree
- Agree
- Neutral
- Disagree

- Strongly Disagree

Section 3: The following are questionnaires to analyze the effects of the new NBE directive on auditors' independence and objectivity to maintain audit quality.

This Likert scale questionnaire allows respondents to give graded responses to statements about the expected impacts of the central bank directive. The results can be statistically analyzed to assess overall perceptions of its likely effects on independence and objectivity audit quality.

3.1. The new directive clearly defines and explains the concepts of auditor independence and objectivity.

- Strongly Agree
- Agree
- Neutral
- Disagree
- Strongly Disagree

3.2. The directive places appropriate restrictions on relationships and services that could impair auditor independence.

- Strongly Agree
- Agree
- Neutral
- Disagree
- Strongly Disagree

3.3. The required disclosures will increase transparency around auditor independence.

- Strongly Agree
- Agree
- Neutral
- Disagree

Strongly Disagree

3.4. The directive's rotation and cooling-off period requirements will improve auditor objectivity.

- Strongly Agree
- Agree
- Neutral
- Disagree
- Strongly Disagree

3.5. The limitations on consulting and other non-audit services will enhance independence.

- Strongly Agree
- Agree
- Neutral
- Disagree
- Strongly Disagree

3.6. The disciplinary actions for non-compliance are appropriate

- Strongly Agree
- Agree
- Neutral
- Disagree
- Strongly Disagree

3.7. The directive will improve client acceptance/retention policies of audit firms.

- Strongly Agree
- Agree
- Neutral
- Disagree
- Strongly Disagree

3.8. The directive's training and oversight requirements will improve compliance.

- Strongly Agree
- Agree
- Neutral
- Disagree
- Strongly Disagree

3.9. The directive will enhance actual and perceived independence of bank auditors.

- Strongly Agree
- Agree
- Neutral
- Disagree
- Strongly Disagree

3.10. Overall, the directive will have a positive impact on bank audit quality.

- Strongly Agree
- Agree
- Neutral
- Disagree
- Strongly Disagree

Section 4: The following are questionnaires to analyze the effects of the new NBE directive on auditors' competence and qualifications in maintaining high audit quality

This questionnaire uses a Likert scale to assess perceptions of whether the central bank directive's auditor competence and qualification requirements will positively impact audit quality. The results can provide useful insights into views on the effectiveness of the directive's provisions in this area.

4.1. The directive establishes appropriate competency requirements for bank auditors.

- Strongly Agree
- Agree
- Neutral
- Disagree
- Strongly Disagree

4.2. The continuing professional education requirements in the directive are adequate.

- Strongly Agree
- Agree
- Neutral
- Disagree
- Strongly Disagree

4.3. The directive will limit audits to auditors with sufficient banking industry expertise.

- Strongly Agree
- Agree
- Neutral
- Disagree
- Strongly Disagree

4.4. The directive's focus on IT skills will enhance auditors' competence.

- Strongly Agree
- Agree
- Neutral
- Disagree
- Strongly Disagree

4.5. The experience requirements for bank audit partners are appropriate.

- Strongly Agree
- Agree

- Neutral
- Disagree
- Strongly Disagree

4.6. The directive will enhance technical training of bank auditors.

- Strongly Agree
- Agree
- Neutral
- Disagree
- Strongly Disagree

4.7. The directive will require specialized certification/licensing of bank auditors

- Strongly Agree
- Agree
- Neutral
- Disagree
- Strongly Disagree

4.8. The requirements will improve auditors' understanding of banks' operations.

- Strongly Agree
- Agree
- Neutral
- Disagree
- Strongly Disagree

4.9. Auditors will have stronger ability to assess bank risks after the directive.

- Strongly Agree
- Agree
- Neutral
- Disagree

Strongly Disagree

4.10. Overall, the directive will improve bank auditors' competence and qualifications

Strongly Agree

Agree

Neutral

Disagree

Strongly Disagree

4.11. The directive will have a positive impact on bank audit quality.

Strongly Agree

Agree

Neutral

Disagree

Strongly Disagree

Section 5: The following are questionnaires to analyze the effects of the new NBE directive on the audit process and procedures for banks to maintain audit quality.

This Likert scale questionnaire will gather perceptions on whether the directive's provisions on audit processes and procedures will enhance bank audit quality. The results can provide insights into the expected effectiveness of the directive's requirements in this critical area.

5.1. The directive will require more robust audit risk assessment procedures for bank audits

Strongly Agree

Agree

Neutral

Disagree

Strongly Disagree

5.2. The directive establishes appropriate materiality thresholds for bank audits.

- Strongly Agree
- Agree
- Neutral
- Disagree
- Strongly Disagree

5.3. The required audit sampling methodology will improve bank audit quality.

- Strongly Agree
- Agree
- Neutral
- Disagree
- Strongly Disagree

5.4. The directive's oversight on use of technology will enhance bank audit processes.

- Strongly Agree
- Agree
- Neutral
- Disagree
- Strongly Disagree

5.5. The required workpaper documentation standards will increase effectiveness.

- Strongly Agree
- Agree
- Neutral
- Disagree
- Strongly Disagree

5.6. The mandatory partner and manager oversight will strengthen audit procedures.

- Strongly Agree
- Agree
- Neutral
- Disagree
- Strongly Disagree

5.7. The directive's audit reporting standards will improve transparency.

- Strongly Agree
- Agree
- Neutral
- Disagree
- Strongly Disagree

5.8. The required communication with audit committees will enhance governance.

- Strongly Agree
- Agree
- Neutral
- Disagree
- Strongly Disagree

5.9. The quality control processes will better monitor bank audit execution.

- Strongly Agree
- Agree
- Neutral
- Disagree
- Strongly Disagree

5.10. Overall, the directive will have a positive impact on bank audit procedures.

- Strongly Agree
- Agree

- Neutral
- Disagree
- Strongly Disagree

5.11. The directive will improve the quality of bank audits.

- Strongly Agree
- Agree
- Neutral
- Disagree
- Strongly Disagree