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CRITICAL FACTORS OF MODIFIED EXTERNAL AUDITORS REPORT IN THE CASE OF ETHIOPIAN PUBLIC HIGHER EDUCATION INSTITUTIONS

BY

TINSAE TEKESTE

A thesis submitted to Addis Ababa University College of Business and Economics in partial fulfillment of the requirement for the degree of masters of Science in Accounting and Finance

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ADDIS ABABA, ETHIOPIA

DECLARATION

I, TINSAE TEKESTE, hereby declare that the thesis work entitled "**critical factors of modified external auditors report in the case of Ethiopian public higher education institutions**" submitted by me for the award of the degree of Masters of Science in Accounting and Finance of Addis Ababa University at Addis Ababa, Ethiopia, is my original work and it has never been presented in any university. All sources and materials used for this thesis have been duly acknowledged.

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CERTIFICATION

Addis Ababa University

College of graduate studies

This is to certify that the thesis prepared by Tinsae Tekeste entitles: **critical factors of modified external auditors report in the case of Ethiopian public higher education institutions** and submitted in partial fulfillment of the requirements for the degree of masters of Science in accounting and finance compiles with the regulations of the university and meets the accepted standards with respect to originality and quality.

Approved by board of examiners:

Internal Examiner	Signature	Date
External Examiner	Signature	Date
Advisor	Signature	Date
Chair of Department or Graduate Program Coordinator	Signature	Date

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LIST OF ACRONYMS AND ABBREVIATIONS

ACS	**A**bsence of **C**ompetitive **s**upplier
EXR	Experience of the institution
IA	Internal Audit
IAD	Incapability of **I**nternal **A**udit **D**epartment
IM	Failure to take **Im**mediate Action on audit recommendations
LE	**L**ack of **E**ducation
MG	Lack of **M**anagement experience
MN	**M**anagement **N**egligence
MP	**M**anagement poor **P**erformance
NCP	**N**onexistence of **C**lear **P**olicies and procedures
NL	**N**onexistence of Enforcing **L**aw
OFAG	Federal Office of Auditor General
PU	Public University
UNO	Un modified opinion
VT	**V**olume of **T**ransaction

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Abstract

The types of audit reports issued by external auditors are categorized in to two major categories. The one is un-modified (unqualified auditors' report) and the other type is modified audit report. Identification of the critical factors of modified external auditors report is an important point for managers to concentrate resources for effective and efficient corrective actions. The Ethiopian Office of Auditor General is conducting annual audit of the financial statements of public higher education institutions and give modified audit reports from year to year. It has also repeatedly reported to the parliament that the financial record keeping and reporting of public higher education institutions is not showing improvement from time to time. This study determines the critical factors of modified auditors report in public higher education institution of Ethiopia. Nine factors are taken from previous researchers' study as causes of poor control system in government entities and one additional factor mentioned by media experts and one more factor from parliament report that have direct impact on the financial control system of public higher education institutions are selected for this studies. The study is conducted in the Office of Auditor General who is the external auditor of public higher education institutions and in the reporting entity, public higher education institutions of Ethiopia, who are audit clients for the auditor general. Data is collected from the senior audit staffs and the senior finance section employees of the reporting entity (public higher education institutions). Five Level Likert Scale research question is used to rate the eleven factors by the auditors and by the finance employees of public higher education institutions. Based on their mean and standard deviation the factors are rated from most critical to none critical factor. The result of data analysis shows that five of the factors are identified as most critical, as these factors are rated by both auditors and auditees as most critical. Four of the factors are rated as most critical by either of the two parties (auditors or auditee) therefore these four factors recommended for further study. And two of the factors are found none critical factor of modified external auditors report in public higher education institutions.

Key words: -

- ✓ External audit, Modified auditors' report, critical factors of modified auditors' report in public higher education institutions

Contents

CHAPTER ONE

Introduction

1.1. Back ground of the study

About auditing

The word "audit" comes from the Latin word "audire", meaning "to hear" (Teck-Heangand Ali, 2008). Auditing in the form of ancient checking activities was found in the ancient civilizations of China, Egypt and Greece. The ancient checking activities found in Greece (around 350 B.C.) appear to be closest to the present-day auditing; in England in the 12th century (Teck-Heangand Ali, 2008). The formal practice of auditing has been in existence for a relatively short period. The industrial revolution and the resulting explosion in growth of business activity led to widespread adoption of auditing methods (Byrnes et al, 2012).

A financial audit is an independent, objective evaluation of an organization's financial reports and financial reporting processes. The primary purpose for financial audits is to give regulators, investors, directors, and managers' reasonable assurance that financial statements are accurate and complete (PWC understanding of financial statements May 2017)

Reasonable Assurance

Financial audits provide reasonable assurance, but not absolute guarantees. Through a variety of different audit procedures such as interviews, observation, and test work, financial auditors can determine if controls and processes needed to produce accurate financial statements are in place. If the controls and processes are in place, then they can conclude that the financial statements are accurate and reasonable, but they still can' (PWC understanding of financial statements May 2017)

The International Standard on Auditing (ISA) no 200 says the purpose of audit is to enhance the degree of confidence of intended users in the financial statements. There is an agency relationship between owners and management. Managers who deal with the day to day activity are agents of owners who are not involved in the activities of a company. Agency theory based perspective states that audited financial statements are a monitoring mechanism to provide users assurance of financial information (Memiş&Çetenak,2012).

According to IAS 700 parag. 10 the management and auditor have different responsibilities on the financial statements prepared, it states that management is fully responsible to prepare the financial statement in compliance with the required reporting frame work, and give guarantee that the financial statement is free from material statements due to fraud or error. It is also management's responsibility to have sound internal control system and select appropriate accounting policies to prepare for the organization they are managing.

According to IAS 700 paragraph 29, the auditor's responsibility is to express an opinion on the financial statements based on the audit the types of audit opinion formed by auditors is classified under two major categories

1. Unmodified
2. Modified

Unmodified opinion is given when the auditor obtains adequate evidence that the financial statements prepared by the management are free from material misstatements due to fraud or error.

The modified opinion is issued by the auditor when the auditor has obtained sufficient evidence that the financial statements prepared by the management has material misstatement or when the auditor faces difficulty to obtain evidence about the amounts on the financial statements that ascertains it is free from misstatement. (IAASB hand book volume -II)

The modified opinion issued by the auditor is different depending on the seriousness of the audit findings; it ranges from the simple modified opinion (except for few findings) to disclaimer and adverse opinions. In addition to the auditor modifies the opinion by giving emphasis paragraph. (IAASB hand book volume -II)

Misstatements in the financial statements are results of fraud or errors. The errors include noncompliance with governing reporting standards.

The remaining discussions in this chapter are organized to have eight sections: section 1.1 presents the background to the study; section 1.2 shows the statement of the problems; section 1.3 presents the general objective; section 1.4 presents the hypotheses; section 1.5 presents scope of the study; section 1.6 presents the limitation of the study; section 1.7 the significance of the study; and section 1.8 presents the organization of the entire study.

1.1. Statement of the problem

In Ethiopia external audit service is provided by government and private audit firms, most of the government owned organizations including public higher education institutions are audited by government owned audit firms.

The government owned audit firms constitute two big institutions: the one Office of the Federal Auditor General (OFAG) which is the first audit institute of the country (Beyashe, 2008). The proclamation to establish the Auditor General's Office has been revised continuously with the change in government the last one is being the 1997 proclamation (Proclamation No. 68/1997. As per proclamation no 68/97 the objective of OFAG is to strengthen the audit system and to undertake financial and performance audit of the Federal and Regional governments. So the office has no responsibility in auditing for-profit organizations of both government and privately owned companies.

The second government owned audit firm is Audit Services Corporation (ASC) totally government-owned corporation/ state-owned enterprises, it was established by Proclamation 126/1977 during the Derg regime. The objectives of the corporation were to render audit services and management consultancy for organizations of which the government is the owner or majority shareholder. The ASC-audited enterprises include state-owned banks. ASC operates without government influence (World Bank 2007 Report on the Observance of Standards and Codes (ROSC).

According to the auditor's general report to the parliament, Keffyalew Gebremedhin, /2018/ :

> *"Auditor-General has challenged every office and every powerful official over unauthorized expenditures, not following the nation's financial regulations, some literally issuing tickets to collect unauthorized money, etc. This has put him into tension with everyone, from the top brass of the military to the secretive intelligence and to the politics etc, irrespective of their ties and proximity to the center.*
>
> *The Auditor General has also reported findings Ethiopia's import and export goods at the Djibouti Port: he said "Ten missing cars and more than two billion birr unaccounted for. Lost, undocumented, misused, and damaged public properties. These were just some of the shocking facts revealed in the report of Auditor General, on Tuesday in a presentation to Parliament. The concerns raised by Gemechu and the fact that it is getting from bad to worse had MPs irritated. Subsequently, MPs called for swift action, reports ."*

These types of articles are regularly issued in medias similarly the office of auditor general has conducted the audit of the financial statements of public higher education institutions and it had issued a modified audit opinion. Up on presentation of the audit report to the parliament it found that the auditors' report had major findings that touches the people feeling and government of Ethiopia was forced to organize a committee to study the problems.

An exploratory research conducted by Asare (2016) on the Value for Money Audit in public procurement in case of polytechnics identified major factors for ensuring value for money in public procurement. The identified factors includes having professional and experienced officials in the field they are working, management regularly appraises its activities, institutions having clear policy and procedures. This research has also identifies the main challenges in value for money in government procurement. The challenges includes lack of accountability, inadequately skilled personnel, lack of top management support, lack of appropriate bidding or incorrect utilization of the limited bidding process. Few of the recommendation given by Asare (2016) are there should exists regular audit and monitoring, strong or consistent enforcement of the prevailing rules and regulation, punitive suction for who failed to comply with the activities in the polytechnics, and suppliers/ contractors/ consultants who attempts to influence the procurement process should be sanctioned and debarred from government contract.

Audit theories also shows that one of the few of the causes of regularly modified auditors' report is the result of failure to take appropriate action on previously given audit recommendation. In addition newspapers and Medias shows that in Ethiopia public higher education institutions are receiving large amount of government budget.

Studies conducted in audit have focused on commercial banks and manufacturing companies and the studies are conducted on a single independent variable, few studies are also conducted on government entities such as a study conducted by Regassa Babible in 2016 such studies are conducted on the role of auditing in public entities.

In Ethiopia, the external audit report of public higher education institutions are regularly modified, the study conducted by Asare(2016) has identified factors, limitation and given recommendation to have economy, effective and efficient (3E) or value for money in government organization. Furthermore the Medias in Ethiopia indicates that the ruling party has assigned government positions for politically loyal person and significant amount of government budgets goes to public higher education institutions. Although previously conducted exploratory research have identified many factors for effective and efficient government system and factors for improvements control environment, which of the studied factors are critical to public higher education institution modified external auditors report is not studied. This study will identified the critical factors for modified external auditors report in public higher education institutions.

1.2. Research question

Base on the above statement of the problem the researcher develops the following research question.

> Out of the studied factors of modified external auditors report in public entities which of the factors are critical factors and which of the factors are not critical?

1.3. Objective of the Study

1.3.1. General Objective

The general objective of the study is to identify the most critical, critical and none critical factors of modified external auditors report in the case of Ethiopian public higher education institutions out of the selected previously studied factors of modified reports in public entities these factors are:- none existence of clear policies and procedures, management negligence, internal audit department's poor performance, failure to take immediate action on previous audit findings, lack of management experience, management poor performance, none existence of enforceable law, high volume of transactions and absence of competitive suppliers.

1.3.2. Specific Objectives

The specific objectives of the study are;

- ✓ To examine how critical is none existence of cleared policies and procedures for modified external auditors opinion;
- ✓ To examine how critical is management negligence in government organization for modified external auditors opinion
- ✓ To examine how critical is internal audit department operation in government organization for modified external auditors opinion
- ✓ To examine how critical is management fails to take immediate action on audit recommendations for modified external auditors opinion
- ✓ To examine how critical is management positions covered by inappropriate persons for modified external auditors opinion
- ✓ To examine how critical is none experienced management in government organization for modified external auditors opinion
- ✓ To examine how critical is organizations that do not have exposure to external audit for modified external auditors opinion
- ✓ To examine how critical is management performance for modified external auditors opinion
- ✓ To examine how critical is none existence of endorsable laws and punishments for modified external auditors opinion

- ✓ To examine how critical is volume of transactions for modified external auditors opinion
- ✓ To examine how critical is absence of competitive suppliers in government organization for modified external auditors opinion

1.4. Scope of the Study

The study is limited to the potential short listed factors selected by the researcher as causes of misstatement in the financial statements of public higher education institutions. These short listed factors are taken from exploratory research works conducted previously, the audit theories such as audit textbook, media experts' opinion and parliament report.

The study is carried out in the office of auditors general of Ethiopia and in selected public higher education institutions.

Data is collected from audit managers and senior auditors who have been directly involved in the audit of the financial statements of public higher education institutions, and also from finance managers and senior accountants of public higher education institutions.

1.5. Limitations of the Study

The study has limitation that some of the factors are rated as high critical factors for modified auditors' opinion by either of the external auditors or employees of public higher education institution but the other party has assigned smaller values for the same factors therefore these factors needs to be studied further to determine as they are critical factors or none critical factors of modified opinion in public higher education institutions.

1.6. Significant of the Study

Many parties will be benefited from the findings that emerged from the results of the study and these stake holders are:

The public:- the research is helpful to indicate which control area needs improvement and recommends how to strength the control system so that the public contribution in the form of tax is properly used for intended purpose.

The university:- at large it helps the universities to figure out the causes of their reports are modified and it will facilitate which areas they are required to work on for betterment.

Management: Administration could be interested in identifying indicators of causes of the audit reports were modified and choose the right decisions.

Government: as the government is the owner of the universities and the funds collected to finance the public higher education institutions is collected from the tax payers the government has responsibility of ensuring the budget allocated to the public higher education institutions is properly accounted for. The study therefore helps the government to focus on the identified gaps for better performance and getting public trust.

1.7. Structure of the study

The research paper is organized in to five chapters. Chapter one is an introduction part where back ground of the study, statement of the problem, objectives of the study, scope, significance and limitation of the study are presented. Chapter two is literature review in which theories, empirical evidence and conceptual frame work related to the research topics are discussed. Chapter three contained research methodology where research design, research approach, population, sampling method, sample size, sources of data, instruments, data analysis technique, model specification, variable definition and hypothesis development are covered. Chapter four focused on the results and discussion in which the findings results that are interpreted. Finally, Chapter five brought to an end the research with summary, conclusion and possible recommendation

CHAPTER TWO

LITERATURE REVIEW

This section presented theoretical and empirical review of different works performed in relation to audit reports. Accordingly, the first part presented theoretical literature about auditing, types of audit reports and brief description of the different audit report types; it also gives the theoretical literature of conditions that fulfill to modify the audit reports. The second part discussed about various empirical studies. The gaps in existing literature described in the third part and the conceptual framework depicted in the fourth part.

2.1. Theoretical Literature

The previous chapter presents the history of audit, its purpose and audit practice in Ethiopia. It also states the objective of the paper, which is to assess the factors that causes modified audit reports are issued to the public higher education institutions. This chapter presents the theoretical literature including definition of audit; type of audit, users of audit and empirical evidence on determinants of audit quality.

2.2. Introduction

An audit is an official examination of the accounts (or accounting systems) of an entity (by an auditor). The main objective of an audit is to enable an auditor to convey an opinion as to whether or not the financial statements of an entity are prepared according to an applicable financial framework. The applicable financial reporting framework is decided by legislation within each individual country and accounting standards such as IFRS (International Financial Reporting Standards) (ISA, 200).

An audit of a company's accounts is needed because in companies, the owners of the business are often not the same persons as the individuals who manage and control that business. The shareholders own the company but the company will be controlled and managed by directors. The directors have a stewardship role. They look after the assets of the company and manage them on behalf of the shareholders.

The relationship between the shareholders of a company and the board of directors is also an application of the general legal principle of agency. The concept of agency applies whenever one person or group of individuals acts as an agent on behalf of someone else (the principal). The agent has a legal duty to act in the best interests of the principal, and should be accountable to the principal for everything that he does as an agent. The directors in order to show their accountability to the shareholders they will prepare annual financial statements. Over time, the annual audit was developed as a way of adding credibility to the financial statements produced by management.

The agency principle is also applicable to government owned entities, the person who are managing the public entities are different from the owners or the parties who have contributed the funds.

2.3. Types of audit

Audit type can be divided by the obligation that companies have on audited financial statements in to (Strathmore University Press, 2009)

Statutory audit: - Most countries impose a statutory requirement for an annual (external) audit to be carried out on the financial statements of most companies. In our country share companies are obliged to have their annual financial statements audited by independent auditors (Commercial Code of Ethiopia, 1960). Banks also requires audited financial statements to provide loan for their clients.

Non-statutory audit: - Non-statutory audits are performed by independent auditors because the owners, proprietors, members, trustees, professional and governing bodies or other interested parties desire them, not because the law requires them

Audit engagement and services can also be classified as external audit, internal audit, public sector audit, tax audit, information system audit, forensic audit, environmental and social audit, value for money audit, compliance audit etc

External Audit: -External audit, also known as financial audit and statutory audit, involves the examination of the truth and fairness of the financial statements of an entity by an external auditor who is independent of the organization in accordance with a reporting framework such as the IFRS. Company law in most jurisdictions requires external audit on annual basis for companies above a certain size. External auditors are required to comply with professional auditing standards such as the International Standards on Auditing and ethical guidelines such as those issued by IFAC in order to maintain a level of quality and trust of all stakeholders in the auditing exercise. (Strathmore University Press, 2009) External Audit is the focus of this study.

Public Sector Audit: - State owned companies and institutions are required by law in several jurisdictions to have their affairs examined by a public sector auditor. Public sector audit involves the scrutiny of the financial affairs of the state owned enterprises to assess whether they have been operated in way which is in the best interest of the public and whether standard procedures have been followed to comply with the requirements in place to promote transparency and good governance. Public sector audit therefore goes a step further than the financial audit of private organizations which primarily focuses on the reliability of financial statements. (*Strathmore University Press, 2009*)

Value for Money Audit: - Value for money audits involves the assessment of the efficiency, effectiveness and economy of an organization's use of resources. Value for money audits is increasingly relevant to sectors which do not have profit as their main objective such as the public sector and charities. (Strathmore University Press, 2009)

2.4. Types of audit reports

An audit report is addressed to the readers of an entity's financial and non-financial information. All public entities are accountable to Parliament for their use of public money and their use of any statutory powers or other authority given to them by Parliament.(*ACCA Advanced Auditing and assurance complete textbook P7 2016*)

The types of audit reports issued by auditors is classified in to two major categories

1. Modified/ modified opinion
2. Unmodified opinion

Unmodified opinion is given when the auditor obtains adequate evidence that the financial statements prepared by the management are free from material misstatements due to fraud or error.

The modified opinion is issued by the auditor when the auditor has obtained sufficient evidence that the financial statements prepared by the management has material misstatement or when the auditor faces difficulty to obtain evidence about the amounts on the financial statements that ascertains it is free from misstatement.

The modified opinion issued by the auditor is different depending on the seriousness of the audit findings; it ranges from the simple modified opinion (except for few findings) to disclaimer and adverse opinions. In addition to the auditor modifies the opinion by giving emphasis paragraph.

Misstatements in the financial statements are results of fraud or errors. The errors include noncompliance with governing reporting standards.

2.5. Conditions to give modified opinion and types of modified opinions

The auditor issue a modified opinion in the following condition

a. A misstatement about the treatment or disclosure of a matter in the financial and/or non-financial information; or
b. A limitation in scope. This may occur when the appointed auditor has been unable to obtain sufficient appropriate evidence to support, and accordingly is unable to express, an opinion on the financial or non-financial information or a part of the financial or non-financial information.(IAS 700)

There are three types of modified opinion (which are discussed below):

- ✓ An "adverse" opinion;
- ✓ A "disclaimer of opinion"; and
- ✓ A "modified opinion".

The appointed auditor will include an "emphasis of matter" paragraph or "other matter" paragraph in the audit report to draw attention to matters such as:

- Fundamental uncertainties;
- Breaches of law; or
- Concerns over probity or financial prudence.

The appointed auditor has to include an "emphasis of matter" paragraph or an "other matter" paragraph in the audit report in such a way that it cannot be mistaken for a modified opinion. (ISA 700)

a. <u>Adverse opinions</u>

An adverse opinion is the most serious type of non-standard audit report.
An adverse opinion is expressed when the appointed auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are both material and pervasive to the financial and/or non-financial information. (Auditor general of New Zealand audit Results of the 2012/13 audits (Volume 2).

b. <u>Disclaimers of opinion</u>

A disclaimer of opinion is expressed when the appointed auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion (that is, a limitation in scope), and the appointed auditor concludes that the possible effects on the financial and/or non-financial information of undetected misstatements, if any, could be both material and pervasive.(New Zealand audit Results of the 2012/13 audits (Volume 2).
A disclaimer of opinion is also expressed when, in extremely rare circumstances involving multiple uncertainties, the appointed auditor concludes that, notwithstanding having obtained sufficient appropriate audit evidence regarding each of the individual uncertainties, it is not possible to form an opinion on the financial statements and/or non-financial performance information because of the potential interaction of the uncertainties and their possible cumulative effect on the financial and/or non-financial information. (New Zealand audit Results of the 2012/13 audits (Volume 2).

c. <u>Modified opinions</u>

A modified opinion is expressed when the appointed auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in aggregate, are material, but not per individual amounts. The figure below outlines the decisions that an appointed auditor has to make when considering the appropriate form of the audit report

A modified opinion is also expressed when the appointed auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, but the appointed auditor concludes that the possible effects on the financial and/or non-financial information of undetected misstatements, if any, could be material but not pervasive.
In addition, a modified opinion is expressed when the appointed auditor concludes that a breach of statutory obligations has occurred and that the breach is material to the reader's understanding of the financial and/or non-financial information. An example of this is where a Crown entity has breached the requirements of the Crown Entities Act 2004 because it has not included budgeted figures in its financial statements. (International Auditing and Assurance Board, IAASB Hand Book IAS 700).

d. "Emphasis of matter" paragraphs

In certain circumstances, it may be appropriate for the appointed auditor to include additional comments in the audit report to draw readers' attention to a matter that, in the appointed auditor's professional judgment, is fundamental to their understanding of the financial and/or non-financial information. The additional comments will be included in the audit report in an "emphasis of matter" paragraph, provided the appointed auditor has obtained sufficient appropriate audit evidence that the matter is not materially misstated in the financial and/or non-financial information. (International Auditing and Assurance Board, IAASB Hand Book IAS 700).

e. "Other matter" paragraphs

In certain circumstances, it may be appropriate for the appointed auditor to communicate a matter that is not adequately presented or disclosed in the financial and/or non-financial information because, in the appointed auditor's professional judgment, the matter is relevant to readers' understanding of the financial and/or non-financial information. The additional comments will be included in the audit report in an "other matter" or similarly titled paragraph/(IAS 700).

2.6. Review of studies on audit of public entities

Asare (2016) conducted a research to identifies the factors that are necessary for ensuring economy, effective and efficient (3E) in government organization. The researcher concludes that having professional and experienced officials, management regular appraisal, existence of clear policies and procedures are the factors that are necessary for performance of public institutions. He also identifies lack of accountability and transparency, inadequate skilled personnel, lack of top management support, inadequate measure for monitoring and evaluation, are the main challenges in government organization. He further recommended regular audit and monitoring, punitive sanctions on officials who fails to comply with activities and sanction and debarring suppliers/ contractors/ consultants who attempts to influence process as among measures that should be taken to enhance the (3E).

Arthur Piper in (2015) has studied The Roles of Internal Auditors in the Public Sector Globally; many areas of the public sector say they have insufficient funding for their scope of work. The study claims the importance of internal audit is increasing due to increase in public transparency and accountability. The study also indicated that the public sector has fewer audit committees than other sectors, and the quality and composition of the audit committees can vary greatly. In some cases, this presents significant threats to internal audit independence. The study comes with two major conclusions some or all of the government auditing requirements is not completely in line with the Standards and, public sector internal auditors receive more hours of training per year than those in other sectors

Byrnes et al, (1992) reviewed the Quality Control Review (QCR) done one CPA auditors by Texas Education Agency (TEA). Their purpose was to see the determinants of audit quality in the public sector. Their conclusion was as follows; 1) audit quality declines as audit tenure increases 2) audit quality increases as number of clients increases 3) large financially healthy clients receive lower audit quality 4) board turnover results lower audit quality and 5) audit firms that are member of AICPA's Peer Review Section (PEER) conducts higher quality audit.

Mansouri et al, (2009) researched on Audit Competence and Audit Quality: Case in Emerging Economy. Their objective was to see the relationship between audit competence and audit quality in Iranian environment. By reviewing the respondents of sampled finance professionals including internal and external auditors they concluded that audit specialization and audit competence have a positive effect on detecting frauds.

Suyono (2012) studied determinants of factors affecting the audit quality in Indonesia. By reviewing respondents of questioners distributed to auditors of public accounting firms and concluded that independence experience and accountability simultaneously affect the audit quality. Independence and accountability partially affects the audit quality while experience does not affect audit quality partially. His study shows that accountability has a dominant effect on audit quality.

Al-Khaddash et al, (2013) studied about factors affecting audit quality in Jordanian Commercial Banks. They used primary data through questionnaires to external auditors who have auditing experience of Jordanian Commercial Banks and internal auditors working in Jordanian Commercial Banks. The result of their study shows that internal control system doesn't affect auditing quality in the Jordanian banking sector; the independence of the auditor doesn't affect auditing quality in the Jordanian banking sector; Auditor efficiency affects auditing quality in the Jordanian banking sector; the reputation of the auditing office affects auditing quality in the Jordanian banking sector; auditing office fee affects auditing quality in the Jordanian banking sector; the size of the auditing office doesn't affect auditing quality in the Jordanian banking sector; the specialty and proficiency of the auditor doesn't affect auditing quality in the Jordanian banking sector. Finally they find out that there is no difference in perception of audit quality between internal and external auditors

Adeyemiet al, (2012) researched on factors affecting audit quality in Nigeria. By using both primary data through questionnaires and secondary data sampled company's financial reports they concluded that provision of non-audit service would likely have a significant effect on the audit quality in Nigeria; the length of audit tenure does not necessarily enhance audit quality in Nigeria; multiple directorship (the number of director positions held by audit committee members) of audit committee members is a significant factor in explaining audit quality in Nigeria; financial literacy of audit committee members is not a significant factor in explaining audit quality in Nigeria; and there is a subsisting significant relationship between audit committee members' independence and audit quality in Nigeria. Among the possible causesthe most significant determinant of audit quality in Nigeria is multiple directorships of audit committee members.

Kitata (2016) in his study on factors affecting quality of external auditing: The case of Ethiopian Commercial Banks indicated that there is no significant relationship between audit specialization and audit quality; audit tenure and audit quality in external audit of commercial banks in Ethiopia whereas bank size and audit fee has a positive significant relationship with audit quality in external audit of commercial banks of Ethiopia.

Rodreck David on (May 2016), has studied Contribution of records management to audit opinions and accountability in government. Auditing can support national democratic processes, national development and government good will. Supreme Audit Institutions (SAI), such as offices of Auditor General, publish consolidated reports on audit outcomes for local authorities, government departments, parastatals and related public entities. These reports identify broad areas analyzed during audit exercises that often include financial management, governance, asset management, risk management, revenue collection and debt recovery. They highlight trends that were detected during audit exercises at the end of a financial year. The reports further show how records and records management affect audit exercises as well as financial management within the audited institutions. South African Journal of Information Management | Vol 19, No 1 | a771 | This work is a study conducted by A document analysis of Comptroller and Auditor General of Zimbabwe (CAGZ)'s reports shows that there is a strong correlation between records management concerns and audit opinions raised by the CAGZ's narrative audit reports. The study states that inadequate records management within government entities was associated with adverse and modified opinions and, in some cases, unmodified opinions that had emphases of matter. There was a causal loop in which lack of documentary evidence of financial activities was the source cause of poor accounting and poor audit reports. Errors resulting from incomplete or inaccurate records meant that government entities were not showing a true picture of their financial status and their financial statements could be materially misstated. As an important monitoring and control system, records management should be integrated into the accounting and auditing processes of government entities. *Auditor General of Zimbabwe*

Nirmala D. Nath (2015) has studied General, Accountability, Hermeneutics, Performance Auditing and Public Sector. This paper provides an understanding of the processes which led to the emergence of public sector performance auditing in Fiji. Drawing on the hermeneutical exposition textual evidence gathered from archival documents and participant interviews is analyzed with the focus to reveal how the text was used by actors such as the Auditor-General, the media, the public accounts committee, the ADB and others to create the perception 'of the need for performance auditing'. The paper concludes that the socially and politically influential actors such as the Auditor-General and the Public Accounts Committee used 'the concept of 'accountability' to craft a niche for performance auditing in the Fijian public sector.

Dereje (2012) in his thesis entitled ―the role of performance audit in fighting corruption taking evidences from both Ethiopian Federal Government and Oromia regional state used a mixed methods research approach to test a research hypothesis and answer research questions. Specifically, the study used surveys of performance auditors, ethics and anticorruption commission officials and turn out auditors, documentary analysis using audit report, budget, and other documents, and interviews with head of performance audit division and public accounts administration standing committee. His thesis finding shows that even though each performance report is full of finding with probable corruption clue areas performance audit did not used as an input in fighting corruption both in federal and regional levels. The focus of this project paper is also to assess role of the performance audit of supreme audit institution in enhancing accountability and performance improvements in the audited organizations Oromia Regional National State.

Reichborn-Kjennerud (2011) in the research title ―the influence of performance audits on civil servants-what contributes to improvement and accountability in the audited entities? indicate majority of the respondents saw that performance audit as useful. This study uses a questionnaire to civil servants that have experienced performance audit to investigate the influence of performance audit. Good quality reports that contributed to learning and considered comments enhanced their perception of usefulness. Likewise, their agreeing to assessments and perceiving the Office of the Auditor General as an institution furthering improvement and transparency contributed positively. Media interest, pressure from political opponents, interest groups and the Standing Committee on Public Accounts, as well as the audited Civil servants position in the organization had an impact on the accountability dimension. These results show that control in a New Public Management regime can make the government administration improve, but is contingent on how the audited civil servants perceive of the performance audit. Opening of all PAC hearings to the media and the public contributes more to accountability. The outcomes of such a shift in countries are worth assessing as to whether they are successful in enhancing accountability, the take-up of recommendations and useful public awareness; and whether they lead to any negative responses from the executive.

Reichborn-Kjennerud (2013) in the study entitled ―political accountability and performance audit show performance audit contributes to political accountability. The study used questionnaire to examine the influence of performance audit by analyzing data from a survey of 353 civil servants who have experienced one or more performance audits. Based on the assessments in the reports, the audited civil servants were expecting to make changes and improve. At the same time, the performance audit is a tool designed to hold ministries and the government administration accountable for government spending and for results. The study had shown that the ministries and the government administration perceived by civil servants to hold accountable to some extent, based on performance audit reports, but that this is largely not the case.

Siregaret al, (2012) researched on the effect of audit tenure and auditors' rotation on audit quality in Indonesia. They tried to see the effect of mandatory auditor rotation regulation in Indonesia in September 2002. They had two observations using secondary data one before the regulation and another after. They used discretionary accrual as audit quality proxy. The result of the study shows that one before auditor rotation became mandatory, longer audit partner tenure was associated with higher audit quality (lower discretionary accruals). Second after auditor rotation became mandatory, longer audit partner tenure became associated with lower audit quality. Third there is no significant relationship between audit firm tenure and discretionary accruals for the period before auditor mandatory regulation, but there is a positive relationship for the period after. Fourth audit partner rotation has positive effects on audit quality but only in voluntary situations (not mandatory by regulation) and that after auditor regulation is mandated there is no evidence that it has a positive and significant effect on audit quality.

Halim et al, (2014) studied the effect of audit competence and audit independence on audit quality by also adding audit time budget and professional commitment as a moderate variable. They used a primary data from public accountants in Indonesia. They found out that audit quality will increase with the higher audit competence and higher auditor's independence. They also found out that smaller audit time budget, the greater effect of auditor's competence on audit quality. This is in line with resilience theory of (Grotberg ,1995), that indicate that respondent's ability to confront and overcome audit time budget pressure at thriving level indicated that individuals are not only able to return to function before and when there is pressure, but resilient individuals would be able to confront and cope with stressful and challenging conditions, by bringing new capabilities that make individuals better. They also concluded that strong commitment has a positive effect on both auditors competence and auditors independence that both have a positive significance on audit quality.

Hosseinniakaniet al, (2014) reviews audit quality factors from various researches on audit quality concepts and audit quality criteria. The results of their study shows that among audit quality determinants large size auditors, industry specialization by auditors, audit reputation and audit fee have a positive effect on audit quality. More audit fee is charged by auditors with large size, auditors that have reputation and auditors with industry specialization which have a positive effect on audit quality.

Leilina (2015) studied on Determinants of Audit Quality Evidence from manufacturing companies in Addis Ababa, Ethiopia. By analyzing a five-year data of sampled manufacturing companies concluded that audit firm industry specialization, joint provision of audit and non-audit service and certified audit professionals ratio significantly affect audit quality in Ethiopian manufacturing share companies. She found out that audit firm size and audit firm tenure has little or no significance on audit quality in manufacturing companies in Addis Ababa, Ethiopia.

In general, most of the studies are done in audit quality and on purpose of audit. This research will attempt to fill this knowledge gap by working in other aspect of external audit, it studies the factors that are causes of material misstatements in the financial statements of government owned entities. The study simultaneously tests the selected factors (the possible causes of material misstatements in the financial statements) from the views of the external auditors and from the views of the government employees who are working at higher position and have direct responsibilities for the audit report and the financial statements. It also tests many variables at once.

2.7. The conceptual frame work

Auditors express either unmodified opinion or modified opinion depending on their audit findings. Previously conducted researches identified different factors of modified auditors report in public entities and give recommendation for better financial reporting systems. Exploratory research conducted by Asare (2016) identifies among the factors that are necessary for ensuring economy, effective and efficient (3E) in government organization includes having professional and experienced officials, management needs regularly appraise their activities, there needs existence of clear policies and procedures.

Asare (2016) also identifies lack of accountability and transparency, inadequate skilled personnel, lack of top management support, inadequate measure for monitoring and evaluation, are the main challenges in government organization and the recommendations given by this researcher includes regular audit and monitoring, punitive sanctions on officials who fails to comply with activities and sanction and debarring suppliers/ contractors/ consultants who attempts to influence process as among measures that should be taken to enhance the (3E). Furthermore, the Medias in Ethiopia indicates that the ruling party has assigned government positions for politically loyal person. It also found that significant amount of government budgets goes to public higher education institutions. Although exploratory research is conducted on factors to have economy, effective and efficient system (highest performance) in government procurement, the extent to which the identified factors can have effect on the government organization performance is not studied. This study will examine how critical are the selected factors for modified external auditors' opinion.

A total of elven factors taken from previous studies are tested how critical they are for modified external auditors opinion in public higher education institutions these factors are: -

Nonexistence of Clear Policies and procedures – one of the factor identified by Asare (2016) to have effective, efficient and economic (3E) system in government organization is having clear policy and procedure. This study examines the how critical is not having cleared policies and procedures on modified auditors' opinion this as one of variable.

Management Negligence: - the exploratory research of Asare (2016) shows existence of management who carries out his duty professionally is one of the factor for 3E. In this research how critical is management negligence for modified audit report is examined.

Incapability of Internal Audit Department: - Asare (2016) identified top management support as one of the factor for 3E. The control system and finance is highly supported by internal audit department. This research will examine the how critical is internal audit department that cannot be able to analyses, design and direct the control system and give support to finance section for modified auditors' opinion.

Failure to take immediate action on audit recommendations; - Asare (2016) said management appraise regularly activities is factor for ensuring 3E. Audit theories indicated that management should timely act on previous recommendation by preparing action plan, organize committee and etc, before the commencement of next audit. This research examines how critical is the effect of management failure to take immediate action on previous audit recommendation for extent of modified auditors' opinion.

Lack of education: - Asare (2016) said qualified and experienced professionals is one of the factor for ensuring 3E. In the other hand the Medias regularly reports that management positions in government organization are covered by individuals who are loyal to the politics than appropriate person with the right qualification. This research examines how critical is none qualified persons assigned in government organization for modified auditors opinion.

Lack of management experience: - management experience in stake holders' management is also one of the variable taken in this study.

Experience of the institution: - regular audit is recommend as a measure for ensuring 3E Asare (2016). it is obvious that the number of public higher education institutions in Ethiopia is increasing year to year this study examines how critical is none shortage of experience of higher education institutions for external audit for unmodified auditors' report.

Management poor Performance: - the study examines how critical is the effect of management performance for modified auditors' report.

Nonexistence of enforcing law: - one of the measure that should be taken to enhance 3E is punitive sanctions on officials who fails to comply activities Asare (2016). This research examines how critical is none existence of enforceable laws on officials who has not complied with policies and procedures for modified audit report.

Volume of transaction: - Media report shows public higher education institutions are spending huge amount of government budget, auditors are required more work in verifying documents, as single transactions involves significant amount of spending and a bulk of document is required as supporting for transactions that meets the materiality level. This research examines how critical is volume of transactions for modified auditors' opinion.

Absence of competitive supplier:- Asare (2016) recommends supplier/ contractor/ consultant who attempts to influence process should be sanctioned and debarred from government procumbent to enhance 3E. Delayed contract execution of the contract terms forces clients to incur additional cost that exceeds budgeted, the external auditor performs budget analysis and reported on budget variance hence the study examines how critical is suppliers performance in contract execution for modified auditors' opinion.

2.8. Conclusion

The chapter reviews theoretical literatures on types of audit; users of external audit report and audit quality. Widely discusses about types of external auditors report and the conditions by which the different types of auditors' report are issued. It discussed what mean by material misstatement in financial statements and how material misstatements are quantified by external auditors. It also reviews studies both done in and out of Ethiopia on audit. It also identifies the knowledge gap that the study will try to fill. The chapter shows what are the factors that are going to be examined, why and from where these factors are taken from.

CHAPTER THREE

RESEARCH METHODOLOGY

This chapter deals with research methodology used to carry out the research. The chapter is organized in to sub titles of research design, followed by research approach, population, sample and sampling technique and brief description of factors and their relation with unmodified opinion.

3.1. Research design

Exploratory research design is used because the study has focused on identification of critical factors for modified external auditors report.

3.2. Research approach

When conducting a research, there are different ways of approaching the problem. According to Creswell (2009), there are three approaches of research; quantitative, qualitative and mixed. The following discussions briefly presents the basic features of these research approaches. Quantitative research is a means for testing objective theories by examining the relationship among variables (Creswell, 2009). On the other hand, qualitative research approach is a means for exploring and understanding the meaning individuals or groups ascribe to a social or human problem with intent of developing a theory or pattern inductively (Creswell, 2009). Finally, mixed methods approach is an approach in which the researchers emphasize the research problem and use all approaches available to understand the problem (Creswell, 2003). Hence, based on the above discussions of the three research approaches and by considering the research problem and objective, this study used mixed research approach. Therefore, to have a better insight and gain a richer understanding about the factors that causes the audit reports of public higher education institutions are modified, the quantitative method supplemented by the qualitative method of inquiry that helps to get benefits of a mixed methods approach and to mitigate the bias in adopting only either quantitative or qualitative approach.

Employing mixed approach is used to counterbalance the biases (limitations) of applying any of a single approach and a means to offset the weaknesses inherent within method with the strengths of the other method (Creswell, 2003). In addition, adopting mixed approach in this study is justified as it provides the best understanding of a research problem because it can open the door to multiple methods of data collection and to both generalize the findings to a population and develop a detailed view of the meaning of a phenomenon or concept for individuals (Creswell, 2003). Thus, this study employed a quantitative study and identifies results about the effect selected factors in extent of modified auditors' report.

3.3. Targeted population

The study populations are entire auditors who are involved at the capacity of audit manager and senior auditors of thirty-five accredited public higher education institutions and the finance manager and senior accountant of the thirty-five public higher education institutions. As per the website of ministry of education there are thirty-five accredited public higher education institutions the list obtained from the web site is provide under annex.

3.4. Sample and Sampling Techniques

The total populations of public higher education institutions are thirty-five but for this study the researcher used sample of auditors who has audited financial statements of twenty public higher education institutions. The study is limited to auditors of twenty higher education institutions due to the fact that auditors who have carried out the audit of public higher education institutions are on continuous duty and reaching them is difficult. In addition, to complete an audit of a public entity takes up to two months therefore once an auditor has left the office without answering the question it is a must to wait until s/he has completed the assignment, on top due to shortage of manpower key senior audit staffs are assigned directly from client office to another office therefore it is reasonable that sample of audit managers and senior auditors who have audited twenty public higher education institutions can properly refer the total number of the population. Information obtained from Auditor General who is external auditor of public universities shows that an audit team of public entities compose of auditor in charge (audit manager) who is responsible for the whole direction of the audit senior auditor and junior auditor (s). Senior auditors and audit managers who have been involved in the audit of public higher education institutions is selected as per the information obtained from auditor general. Audit managers and senior auditors have responsibility for the whole audit, they prepare audit plan, prepare audit program, assign tasks to subordinates, direct the whole audit work, involve in exclusion of the field work, summaries the audit findings, asks explanation and documents for their audit findings and audit findings of subordinates, write reports: therefore, audit managers and senior auditors /auditors in charge/ are targeted group for study.

Public higher education institutions are located in different regional governments trying to collect data from the finance managers and senior accountants of all the thirty-five universities is costly and time taking therefore fifteen universities' finance managers and senior accountants are taken as sample for this study. The fifteen universities are selected randomly the sample selected for this study includes Jijiga University, Mekele University, Bahirdar University, Debrebrhan University, Adam a University and different universities under the Addis Ababa University due to the difficulty to reach all the universities it is reasonable to say information obtained from the fifteen universities fairly refer the total thirty-five universities

In the public higher education institution side, the study is carried out on the finance managers and senior accountant for the reason that these key staffs are responsible for the financial transaction, keeping source document and accounting records. They are also directly deal with the auditors in provision of the financial reports, give accounting records, supported documents, give explanation and answers for questions raised by the auditors.

The matrix for the frame is 20*2(20 universities, one audit manager and one senior auditor) that includes 40 observations in the auditors' side and 15*2 (fifteen universities, one finance manager and one senior accountant) total 30 observations in the universities side.

3.5. Data sources and instruments

The researcher obtained the necessary information through research questions in person given or put in the office of auditor general to be answered by targeted group. The respondents are asked to rate the factors identified as determinants of modified auditors' report. The five level Likert scale question is put in the office of auditor general to be answered by senior auditor and audit managers who have been involved in the audit of public higher education institutions.

The same question is given to finance managers and senior accountants of the universities.

3.6. Data analysis

An excel spread sheet is used to analyze the data collected from the managers and senior auditors. Similarly, the data collected from the finance managers and senior accountants are also analyzed using Microsoft excel spread sheet. Thus, the researcher ranked the eleven possible factors obtained from previous researches based on the mean and standard deviation.

3.6.1. Variables description

Thus, this section explained all the factors of unmodified opinion and modified opinion itself. It also explains the relationship between the factors and unmodified opinion.

3.6.2. Unmodified audit opinion (UNO)

The study examined which of the factors of material misstatements in the financial statements of public entities are critical causes of misstatements in the financial statements of Ethiopian public higher education institutions. According to ISA700 audit reports are modified whenever there are material misstatements due to fraud or errors. The causes of material misstatements are two the one is errors which may be caused by management negligence and the other cause is fraud described as an intentional act or deceitful act of the management in the universities. The material misstatement is also result of limitations as a result of non-clear policies and procedures, such as finance and operating manuals, nonexistence of legal enforcement for management to act according to audit recommendations or punishment for noncompliance with policies and procedures, lack of competitive suppliers that can comply the contract terms.

This study defies which of the factors are critical for modified auditors' opinion in public higher education institutions and which of the factors are none critical.

3.6.3. Indicators of Improvements and dis improvements of audited financial statements

Improvements or dis improvements in financial control and reporting is exhibited by the extent of reduction in material misstatements identified by external auditors. Material misstatements identified by external auditors is measured by number of basis of qualified opinion and amount of misstatements on the report mentioned. therefore, a move from one types of the audit reports to another type indicates improvements or dis improvements in the financial control and reporting. As discussed under the background of study the types of external auditors report ranges from unqualified report to adverse and disclaimer reports. when the misstatements identified by the external auditor is categorized as pervasive a disclaimer report is issued or when fairness of major transactions could not be ascertained using necessary audit evidence the report could be disclaimer and when there is material misstatements but the misstatements are not pervasive with respect to the whole financial statements but material qualified opinion will be given and if no material misstatement in the audited financial statements is observed, the unmodified (unqualified) report is issued by the external auditor. Therefore, the increase (betterment) in financial control and reporting is measured with reference to moving from worst reports adverse and disclaimer to modify and to the unmodified report. The auditor general report to the parliament shows the auditors' report of public higher education institution getting wore and worst.

3.6.4. possible causes of material misstatements in public entities

This subsection described the possible causes of material misstatements in the financial statements taken from previous research. From previous studies eleven possible causes of material misstatements selected. The variables are explained here under.

3.6.4.1. Nonexistence of Clear Policies and procedures

Policies and procedures is to refer to the existence of manuals policies and procedures in the public higher education institutions, particularly these manuals refer to finance manual, operation manual, procurement manual and human resource management manual, it also refers how the manuals policies and procedures are up to date and effective to accommodate the current financial transactions. If there is no written clear policies and procedures the finance control is expected to show misstatement due to the fact that audit is conducted with reference to compliance with laws and regulations however finance controls are unlikely to comply with laws and regulations if it is not bound by policies and procedures.

3.6.4.2. Ineffectiveness of Internal Audit Department

According to KPMG - an effective internal audit function can have a positive impact on the control environment of an organization and the effective design and operation of internal control. The audit committee should regularly have evaluated the effectiveness of the internal audit function to ensure that the benefits to the organization are optimized

Whether large or small, regulated or non-regulated, leading Internal Audit functions perform well against eight attributes (Business alignment, Quality and innovation, Risk focus, Talent mode, Stakeholder management, Cost, optimization, Technology, Service culture) and are delivering greater value across this spectrum. */PwC's the Eight Attributes May 2017.docx/*

A well-organized internal audit department can in advance identifies potential areas of misstatements and give solution before it reaches to external auditors hence it is basic for strong financial control system.

3.6.4.3. Failure to take Immediate Action on audit recommendations

It is expected that at the conclusion of an audit, findings and proposed recommendations are discussed with management and subsequently management action plans are developed to explain how the agreed recommendations will be implemented. Competing priorities, budget limitations and other factors may prevent managers from implementing agreed actions in the agreed timeline or as previously designed to mitigate the risk. The purpose of follow up is to ensure that management has implemented the action, and that it has addressed the issue. In practice, this is often easier said than done! / *Following up recommendations/management actions, chartered Institute of Internal Auditors, 21 December 2017*/

Hold discussion, getting good understanding, plan and taking implementation action avoids audit comments not to be reported for second time in subsequent audit therefore it improves the financial control system and financial reports otherwise repeated reports may appear in subsequent audits.

3.6.4.4. Lack of Education (management positions occupied by employee who do not have right qualification)

The management position of public higher education institutions is expected to be occupied by people who have the required education and qualification. It is well known that the ruling party has direction to employ individuals who are loyal to the politics instead of putting right person with the required qualification in government organization.

Management position occupied by person with inappropriate qualification is a cause of misstatement.

3.6.4.5. Lack of Management experience

Management skills and experience are the most important in internal control system to have healthy operation in organization experienced management forecasts the stakeholders and it will have its own “stakeholder management” so that the any stakeholders’ interest is properly addressed according to their priorities. In the other hand the stake holders in public higher education institutions are diversified and have different interest. Failure to address the interest of these stakeholders interest will result in a modified auditor's opinion.

3.6.4.6. Experience of the institution

Regular annual audit gives lesson to auditees. Audited organizations improve their systems and controls year to year if they are exposed to regular audit. Public higher education institutions are not previously audited by external auditors therefore this study proposes that shortage of experience of audit of public higher education institutions is one contribution of the audit findings.

3.6.4.7. Management poor Performance

Performance management is a process by which managers and employees work together to plan, monitor and review an employee's work objectives and overall contribution to the organization. More than just an annual performance review, performance management is the continuous process of setting objectives, assessing progress and providing on-going coaching and feedback to ensure that employees are meeting their objectives and career goals./hrcouncil.ca/…ing-people-performance-management.cfm/

One of key factors to evaluate management performance is proper use of organization resources measured in monetary terms therefore if management performs well financial control and reporting are looks good.

3.6.4.8. Nonexistence of Enforcing Law

Law enforcement is any system by which some members of society act in an organized manner to enforce the law by discovering, deterring, rehabilitating, or punishing people who violate the rules and norms governing that society.

In public higher education institutions there also expect laws that promotes high performances and punishes employees who have not complied with the reporting rules and regulation so that financial controls are strong.

3.6.4.9. Volume of Transaction

According Reporter Newspaper "Public higher education institutions are indeed among some of the biggest federal institutions in the country getting billions in funding from the budget every year. For example, Addis Ababa University, the biggest university in the nation is set to spend 2.21 billion in the fiscal year in question while other universities like Jimma, Bahir Dar, Mekelle, Gondar, Hawassa, Haromaya and Arbaminch are allotted 1.89 billion, 1.83 billion, 1.73 billion, 1.72 billion, 1.64 billion, 1.57 billion and 1.5 billion birr, respectively, from next year's budget. The second tier, which encompasses Dilla, Ambo, Jigjiga, Wollo, DebreMarkos, Wolayta, Wollega, Askum and MedaWelabu, gets an annual budget which is above 900 million birr each" English Reporter new paper, business, June 17, 2017.

Audit samples is related magnitude of monetary value of a transaction, as huge budget is allocated to public higher education institution the number of expenditure transactions with high amount of spending is high, so that many samples are by auditors, each transaction are expected to have complete set of documents, missing of one of the expected document by auditors results in modification of the audit report.

3.6.4.10. Absence of competitive supplier

Supply Chain is described as a tool of business transformation, which minimizes costs and maximizes customer satisfaction by providing the right product at the right time at the right place and the right price. //Surbhi.S October 2015 Difference between Supply Chain and Value Chain //

According to //*Evelyn NsiahAsareet al.:* Measures of Ensuring Value for Money in Public Procurement: A Case of Selected Polytechnics in Ghana// one of the factor that should be taken in enhancing value for money is Supplier/Contractor/Consultant who attempts to influence procurement process should be sanctioned and debarred from government of Ghana contract.

This study proposes suppliers who have signed contract with public higher education institutions have failed to execute their contract as per the signed agreement forces public institution to incurred addition cost above the budget and result in poor performance and dalliance as a result it is reported by external auditors as modified opinion.

3.6.4.11. Management negligence

Management negligence for exclusion of transaction can contributed to material misstatements in the form of failure to collect proper document for transactions, improper record keeping or not give proper attention for the audit.

CHAPTER FOUR

DATA ANALYSIS AND PRESENTATION

This chapter deals with the results and analysis of the findings and it contains three sections.

4.1. Data analysis of data from Office of Auditors General

Table 4.1. Below provides a summary of the result of data collected from Audit managers and senior auditors of public higher education institutions. The table shows the mean, median and standard deviation. Based on the mean and standard deviation the factors are ranked from high critical factors to critical and none critical factors.

Table 4.1 result of data analysis of externa auditors' replies

	Notation	Mean	SD	Median	Rank
Failure to take Immediate Action on audit recommendations	IM	3.9375	0.680074	4	1
Nonexistence of Clear Policies and procedures	NCP	3.625	0.957427	4	2
Nonexistence of Enforcing Law	NL	3.625	1.147461	4	3
Lack of Education	LE	3.4375	0.727438	4	4
Experience of the institution	EXR	3.3125	0.60208	3	5
Management poor Performance	MP	3.3125	0.704154	3	6
Absence of competitive supplier	ACS	3.1875	0.543906	3	7
Lack of Management experience	MG	3.125	0.718795	3	8
Incapability of Internal Audit Department	IAD	2.9375	0.928709	3	9
Management Negligence	MN	2.9375	1.181454	2	10
Volume of Transaction	VT	2.75	1	2	11
AVERAGE		3.289773			

Source: - authors field data analysis result using Microsoft excel spread sheet

4.2. Discussion of result of auditors replies

As shown in the above table 4.1 the survey analysis result of the average mean 3.3 shows that majority of the respondents agree that the factors selected for test have considered as causes of modified external auditors opinion in the financial statements of public higher education institutions.

From table 4.1above, the external auditors have assigned highest values for factors: failure to take immediate action on previous audit recommendation(IM), None existence of clear policy and procedure (NCP), none existence of enforceable laws that punishes officers who has failed to comply with laws and regulation (NL) and lack of education (LE) with mean rages from of 3.9375 to 3.4375. Therefore, according to external auditors these four factors are the most critical factors for modified opinion in public higher educator institutions.

The other four factors: Experience of public institutions for external audit (EXR), management poor performance (MP), absence of competitive suppliers (ACS) and management experience (MG) are ranked by external auditors fifth to eight critical factors of modified opinion in public financial statements according to means of 3.3125; 3.3125; 3.1875 and 3.125 and with standard deviations of 060208; 0.704154; 0543906 and 0.718795 respectively. These four factors are the average causes of modified external auditors' opinion in public higher education institutions.

The rest three factors: incapability of the internal audit department to plan and direct the finance operation (IAD), management negligence (MN) and volume of transactions (VT) are ranked as the least three factors of modified opinion in the financial statements of public higher education institutions with mean of 2.937, 2.9375 and 2.75 and standard deviations of .928; 1.181 and 1 respectively. Therefore, concluded that these factors are not critical factors of modified external auditors' opinion.

4.3. Data analysis and result of public higher education institutions

As stated under sample and sampling technique in section 4 of this chapter, in the university side the study is carried out on the finance managers and senior accountant of fifteen universities with total respondents of 15 universities 2 employees' total 30. Of the targeted employees of 15 universities replies is obtained from 10 universities. In 9 of the respondents the targeted two employees have given responses and in 1 university one of the two targeted responded has given response. Accordingly, the average of responses given by the employees of the universities are summarized in table 4.8 below. U1-U10 represents the average of raw data received from employees of the universities and the mean and standard deviation of each factors are given in the next two columns.

4.4. Result of data analysis of data of public higher education institutions replies

Notation	U1	U2	U3	U4	U5	U6	U7	U8	U9	U10	Mean	SD	Rank
NCP	4	4	2	4	4	2	3	1	4	3	3.10	1.0440	10
MN	4	5	4	4	4	4	3	5	3	5	4.10	0.7000	3
LE	3	2	4	4	4	4	3	5	5	2	3.60	1.0198	9
NL	2	4	5	2	2	2	2	4	4	3	3.00	1.0954	11
IM	4	4	3	4	4	4	2	5	3	4	3.70	0.7810	6
ACS	4	4	4	2	4	5	2	5	5	2	3.70	1.1874	8
EXR	5	5	4	4	4	3	5	4	4	5	4.30	0.6403	2
IAD	4	4	3	4	4	4	4	5	4	2	3.80	0.7483	5
VT	4	5	3	4	4	5	5	4	5	5	4.40	0.6633	1
MG	3	4	3	4	4	4	5	4	4	4	3.90	0.5385	4
MP	4	2	5	4	4	2	5	4	3	4	3.70	1.0050	7
AVERAGE											3.8		

Table 4.2 average of data collected from finance manager and senior accountants of ten universities and result of analysis

Table 4.2 shows that an average mean of 3.8 that indicates majority of the respondents agree that the factors selected for test have considered as factors of modified opinion in the financial statements of public higher education institutions.

According to table 4.2 VT has mean of 4.4 (highest mean) this means that VT (volume of transaction) is the most critical factor modified auditors' opinion. This is directly related to the government budget, as indicated in the literature review the huge amount of Ethiopian government budget goes to public higher education institutions. The second most critical factor of modified auditors' opinion in public higher education institutions is experience of the institute for external audit (EXP with mean 4.3 and standard deviation of 0.6403). Meaning that public higher education institutions are not regularly audited by external auditors or external audit in public higher education institutions is a short story. MN (management negligence with mean of 4.1 and standard deviation of 0.7 is identified the third most critical factor of modified auditors' opinion in public higher education institutions. Mg (shortage of management experience) and IAD (inability of the internal audit department to direct the internal control function of public higher education institutions) are identified in 4th and 5th critical factors of modified auditors' report in public higher education institutions.

Failure to take immediate action on auditors recommendation (IM), Management Performance (MP) and Absence of Competitive Suppliers (ACS) have same mean of 3.7 however the looking in to the standard deviations IM has the least standard deviation (0.78) and ACS has the highest standard deviation (1.187) in this case variables with same mean the rang is given with lesser standard deviation therefore IM, MP and ACS are the 6th, 7th and 8th critical factors of modified opinion in public higher education institutions. And LE, NCP and NL are the factors that are ranked in the last line as none critical factors.

CHAPTER FIVE

SUMMARY, CONCULSION AND RECOMMENDATION

The preceding chapter presented the results and discussion, while this chapter deals with summary, conclusion and recommendations based on the findings of the study. Accordingly, this, chapter is organized in three subsections.

5.1. Summary of findings

The objective of this research is to assess critical factors of modified external auditors' opinion in public higher education institutions. The study is conducted in selected eleven factors by preparing a survey question. The survey question is answered by external auditors who are directly involved in the audit of the financial statements of public higher education institutions at a capacity of senior auditor and audit managers and in public higher education institutions by employees who have responsibility for higher education financial statements reporting and financial record keeping that is finance managers and senior accountants.

From previously conducted exploratory research, Media experts' opinion and Ethiopian parliament reports elven factors that are studies as causes of modified auditors' opinion in public institutions are taken.

The study targets total population of 35 public higher education institutions' external auditors and finance employees of the institutions. Two employees each who have direct involvement in the audit (audit managers and senior auditors) and financial record keeping and reporting (finance managers and senior accountants) are selected from the auditors and reporting entities respectively.

Auditors (Audit managers and senior auditors) who have conducted the audit of 20 higher education institution are randomly selected as sample from the external auditors' side and finance managers and senior accountants of 15 public universities research questions is left in the office of Auditor General (OFAG) for two months and sixteen audit managers and sixteen Senior auditors have given their replies. Similar research question is in person delivered to be replied by finance managers and senior accountants of fifteen public higher education institutions both finance managers and senior accountants have given their replies in nine of public higher education institutions and in one institution only one of the two staffs has given his/er response therefore a total of 10 replies in obtained from the public higher education institution side.

A micro soft excel spreadsheet is used to analyze the data collected, the result of data analysis of external auditors shows that managements failure to take immediate action on previous audit recommendation(IM), None existence of clear policy and procedure (NCP), none existence of enforceable laws that punishes officers who has failed to comply with laws and regulation (NL) and lack of education (LE) are the first four most critical factors of modified opinion in public higher educator institutions.

According to the data analysis from the external auditors' side experience of public institutions for external audit (EXR), management poor performance (MP), absence of competitive suppliers (ACS) and management experience (MG) are ranked from fifth to eight level of factors of modified opinion in public financial statements and also Incapability of the internal audit department to plan and direct the finance operation (IAD), management negligence (MN) and volume of transactions (VT) are non-critical factors of modified opinion in the financial statements of public higher education institutions.

The result of analysis of data collected from the finance managers and senior accountants of public higher education institutions shows that volume of transaction (VT), lack of experienced of the institution for external audit (EXP), management negligence (MN) and management experience (MG) are the first four most critical factors of modified auditors' opinion.

The internal audit department's weakness to direct the internal control function of public higher education institutions(IAD), failure to take immediate action on auditors' recommendation (IM), management performance (MP and absence of competitive Suppliers (ACS) are the5th, 6th, 7th and 8th critical factors of modified opinion in public higher education institutions.

The three factors lack of education (LE), none existence of clear polices and procedure (NCP) and None existence of enforceable law that punishes officers who has failed to comply with laws and regulation (NL) are non-critical factors of modified external auditors' opinion in public higher education institutions.

5.2. Conclusions

Looking in to result of data analysis of both the auditors and finance employees we find the following five factors ranked by both the external auditors and finance employees on the top eight: -

- ✓ The managements failure to take immediate action on previous audit findings and recommendation is ranked by external auditors as the first main factor of modified opinion in public institutions financial reporting this factor is also ranked by finance managers and senior accountants as 6^{th} main factors.

- ✓ Experience of the institutes for external audit, public higher education institutions were not previously audited by independent auditors therefore they had less exposure for external audit. This lack of experience is ranked as by the finance managers and senior accountants as the second most critical factor for modified auditors report and it also raked by the external auditors as the fifth critical factor.

- ✓ Lack of management experience in stakeholders' management is ranked by finance managers and senior accountants as fourth most critical factor of modified opinion on public higher education institutions and it also ranked as one of the eight top factors by external auditors.

- ✓ Management poor performance and absence of commutative suppliers who delivers the goods and services are as per the agreed contact terms are ranked as sixth and seven factors both by the auditors and finance employees of public higher education institutions.

On the other hand, the finance managers and senior accountants have ranked the volume of transaction as the first most critical factor of modified opinion in public higher education institution but this factor is rejected by external auditors, as per the data analysis of the external auditor it is ranked as the last factor as non-critical factor.

The external auditors have also ranked nonexistence of clear policies and procedures, none existence of enforceable law that punishes officers who has failed to comply with laws and regulations and management positions occupied by officers who has not the right qualification (lack of education) as the 2^{nd}, 3^{rd} and 4^{th} most critical factors of modified opinion.

Management negligence and incapability of the internal audit department are ranked as last factors as per the data analysis of both external auditors and finance employees of public higher education institutions.

Based on the above facts the study concludes that the following five factors as the major critical factors of modified external auditors' opinion in public higher education institutions these factors are: -

- The managements failure to take immediate action on previous audit findings and recommendation
- Experience of the institutes for external audit
- Lack of management experience in stakeholders' management
- Management poor performance and
- absence of commutative suppliers who delivers the goods and services are as per the agreed contact terms

As per the views of the finance managers and senior accountants of higher education institutions the volume of transactions in public higher education institution is studies as principal factor of modified external auditors' opinion but the external auditors do not agree on this factor. Similarly, the finance managers and senior accountants do not accept such factors like nonexistence of clear policies and procedures, none existence of enforceable law that punishes officers who has failed to comply with laws and regulations and management positions occupied by officers who has not the right qualification (lack of education) ranked by the external auditors as the critical factors of modified auditors' opinion therefore these four factors need further studies.

Finally, two of the factors management poor performance and incapability of the internal audit department to direct the control function of public higher education institutions, as per previously conducted researches found as causes of modified external auditors' report, are proofed as these two factors are not the critical factors of modified opinion in public higher education institutions external audit report.

5.3. Recommendation

The study is conducted on eleven possible factors of modified external auditors opinion in public higher education institutions, the study result indicates that five of the eleven factors are critical factors of modified opinion in public higher education institutions these factors are: the managements failure to take immediate action on previous audit findings and recommendation, Experience of the institutes for external audit, Lack of management experience in stakeholders' management, Management poor performance and absence of commutative suppliers who delivers the goods and services are as per the agreed contact terms. Therefore, it is recommended to management of public higher education institution that immediately after completion of an audit the management is required to discuss on the result of audit. The management is also required to plan and act on recommendation timely so that improvements on financial reporting could be easily achieved.

Regular and timely annual audit is also recommended and if it is possible interim audit of the institutions is recommended. Through trainings the overall performances of the management and in particular managements' ability on stakeholders' management should be appraised.

Although in previously conducted researches management poor performance and weakness of internal audit department to give direction and support of the financial control are studies as causes of modified opinion in public higher education institutions, these two variables are not the causes of modified opinion in public higher education institution of Ethiopia.

Special attention needs to be given for other major factors such as the volume of transactions, existence and proper implementation of policies and procedures, existence of enforceable law that punishes officers who has failed to comply with laws and regulations and management positions occupied by officers who has not the right qualification (lack of education) ranked by either of the external auditors or the finance employees of the institutes as the most critical factors of modified auditors' opinion.

5.4. Direction for Future Research

This study has taken in to a look few of the possible factors of modified audit reports however there are so many possible factors for misstatements in the financial statements, therefore it is recommended other factors to be studied. In addition, three of the variables studied in this research are set by the auditors as the first most critical factor (existence and proper implementation of policies and procedures, existence of enforceable law that punishes officers who has failed to comply with laws and regulations and management positions occupied by officers who has not the right qualification (lack of education)) but the auditee put these factors as the least factors of modified opinion similarly the first critical variable set by the auditee (volume of transaction) is found in the last line of data analysis from auditors' side. Therefore, these four factors needs to be further studied in the future.

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Auditing of Public Sector Entities Presented by: CPA Fredrick O. Oluoch central rift branch on 7th march, 2018 @ hotel waterback

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ANNEXES

- Annex 1:- Lists of public higher education institutions
- Annex 2:- Research questions to auditors
- Annex 3:- Research questions to employees of public higher education institutions

Annex 1:- Accredited Public higher education institutions

University	Location	Website	Abbrev	
Adama University	Nazret	http://www.adama-university.net/	ADU	
Addis Ababa University	Addis Ababa	http://aau.edu.et	AAU	
Addis Ababa Science and Technology University	Addis Ababa		AASTU	
Adigrat University	Adigrat		AGU	
Aksum University	Axum	http://aksumuniversity.org/	AXU	
Ambo University College	Ambo	http://www.ambou.edu.et/	AUC	
Arba Minch University	Arba Minch	http://amu.edu.et	AMU	
Asosa University	Asosa		ASU	
Bahir Dar University	Bahir Dar	http://www.bdu.edu.et/	BDU	
Bule Hora University	Bule Hora		BHU	
Debre Birhan University	Debre Birhan	http://www.dbu.edu.et/	DBU	
Debre Markos University	Debre Markos	http://www.dmu.edu.et/	DMU	
Debre Tabor University	Debre Tabor		DTU	
Dilla University	Dilla	http://www.dillauniversity.edu.et/	DU	
Dire Dawa University	Dire Dawa	http://www.ddu.edu.et/	DDU	
Gonder University	Gonder	http://www.uog.edu.et/	UOG	
Haramaya University	Haramaya	http://www.haramaya.edu.et/	HRU	
Hawassa (Debub) University	Hawassa	http://www.hu.edu.et/	HU	
Jijiga University	Jijiga	http://www.jju.edu.et/	JJU	
Jimma University	Jimma	http://www.ju.edu.et/	JU	
Mada Walabu University	Robe / Bale	http://www.mwu.edu.et	MWU	
Mekelle University	Mekelle	http://www.mu.edu.et/	MU	
Metu University	Metu		MEU	
Mizan Tepi University	Mizzan		MTU	
Semera University	Semera	http://www.su.edu.et/	SU	
Wachamo University	Wachamo		WCU	
Welkite University	Welkite		WKU	
Wolaita Sodo University	Sodo	http://www.wsu.edu.et/	WSU	
Woldiya University	Woldiya		WDU	
Wollega University	Nekemt	http://www.wuni.edu.et/	WOU	
Wollo University	Dessie / Kombolcho	http://www.wu.edu.et/	WU	

The following Universities will soon be administered also via Ministry of Education:

University	Location	Website	
Civil Service University	Addis Ababa		
Defence University College	Addis Ababa		
Kotebe CTE - Degree Program	Addis Ababa		
Telecommunications and IT College	Addis Ababa		

<u>Annex 2:- Research question to employees of Auditor General</u>

Addis Ababa University

College of Business and Economics

Department of Accounting and Finance

<u>Questionnaire for employees of Auditor General of Ethiopia who has carried out audit of the financial statements of public higher education institutions</u>

I am MSc, student in Accounting & finance at Addis Ababa University, College of Business and Economics. These questionnaires are designed to study practice of audit in public higher education institutions for completion of master degree and it has undertaken for the academic purpose only.

The questionnaires are prepared in order to get the necessary information to undertake study on the factors that causes the audit reports of higher education institutions are regularly modified (qualified). Most of the questionnaires stated below are closed-ended type, are not take much time.

Any information provided will have kept confidential. Therefore, I kindly request your esteemed cooperation for volunteer to respond the questionnaire and provide accurate and complete data. For more information, you may make contact me by the following address:

Tinsae Tekeste 0911 14 16 47 or Email: dtinsae@gmail.com

Thank you in advance for your time & cooperation!

Attention: Do not write your name.

Please **put tick mark on the box** that corresponds to your answer from the available choices.

Part One: Profile of the respondent

1. Your gender/sex
    1. Male
    2. Female
2. Your age
    1. below 20 years old
    2. 20-30 years old
    3. 31-40 years old
    4. 41-50 years
    5. 51 years or above
3. Your level of education
    1. Secondary school
    2. Diploma
    3. Degree
    4. Masters
    5. PHD
4. Your role in the audit of the financial statements of higher education institutions
    1) Senior Audit manager
    2) Audit manager
    3) Senior auditor (auditor in charge)
    4) Assistance auditor
    5) Junior auditor

Part Two: ***Factors that causes audit reports of higher education institutions are regularly modified (qualified)***

In this part, I am interested in identifying which of the under listed items more related to the qualification of audit reports of higher education institutions. Please read the factors and indicate the extent of your agreement or disagreement by put tick mark on the appropriate box

Factors that causes audit reports of higher education institutions are regularly modified (qualified)

	Strongly Disagree 1	Disagree 2	Neutral 3	Agree 4	Strongly agree 5
1. The improvements in external auditors is exhibited by a move from one type of report to another, (from adverse and disclaimer to except for and unqualified) it also exhibited by the numbers of findings and significance of amounts involved, ie. Reduction in number and of findings and amount of misstatements indicate improvements. As per the report of auditor general to parliament it is found the auditors' report of public universities is deteriorating what is level of your agreement to this sentence/					
The under listed factors are few of the possible determinants of material misstatements in financial statements taken from different researches and text books are they determinants for changes in the auditors' report:					
2. *Nonexistence of clear policies and procedures* *There is no operating manuals policies and procedures that guides the finance and procurement section of the universities, therefore the audit report is modified to what extent do you agree on this statement*					
3. *Managements negligence to implement policies and procedures* *One of the assumptions for material misstatement in financial statements is none implementations of policies and procedures, the management do not give emphasis on effective implementation of policies and procedures documented in the form of manual and rule book.*					
4. *Lack of education* *Public higher education institutions are owned by government, the government policy is to recruit staffs politically loyal than professionals therefore these none professionals in different position are causes of material misstatements in financial statements.*					
5. ***Nonexistence of laws that enforce the management to act according to the audit*** *is the cause of misstatement, I agree if there is a law enforcements that punish management who do wrong the misstatements will reduce*					
6. ***Timely actions are not taken by management*** *on previous audit*					

recommendation so that no improvement is seen in the universities system and is cause of misstatement					
7. ***Absence of competitive suppliers*** *in the economy major suppliers failed to execute the contract terms they signed or they delay the to complete the work within the agreed period that causes the universities to incur costs above what is budgeted, or the work performed by contractors have defects that causes related to material misstatement in the financial statements*					
8. ***experience of the reporting entities*** *Public higher education institutions are new for external audit because of none planned audit execution, management has difficulty to provide the right evidence to auditors that auditors take as scope limitation in their report.*					
9. ***Internal audit department*** *Internal audit department do not have the capacity to lead the control system it is incapable of planning, designing and implement control ahead, if its capacity is developed the misstatements will be reduced.*					
10. ***Volume of transactions*** *Higher educations are running huge amount of government budget most of the payments involve significant amount and the documentations expected for each transaction is more than other government entities therefore the huge budget is related to more material findings in public higher education institutions than other entities,*					
11. ***Managements experience*** *The audit findings in public higher education institutions are related to addressing the interest of some stake holders, if management were experts in stakeholder managed they could address most of the interest of the stakeholders so that the reports were expected to be not modified.*					
12. *Managements perception to the audit report* *Management do not give attention for the audit findings they perceive the audit report as simple fulfillment of their duties imposed and they assume audit reports do not have effect on their performance ratings.*					

Other factors and comments that should be included:- ________________________________
____
____
____

Thank you

Annex3:- Research question to employees of finance manager and senior accountants of public higher education institutions

Addis Ababa University

College of Business and Economics

Department of Accounting and Finance

Questionnaire for employees of public higher education institutions working in the finance department

I am MSc, student in Accounting & finance at Addis Ababa University, College of Business and Economics. These questionnaires are designed to study "the causes of material misstatements in the financial statements of public higher education institutions reported in the audit report by Auditor General" . This study is conducted for completion of master degree and it has undertaken for the academic purpose only.

The questionnaires are prepared in order to get the necessary information to undertake study on the main factors that causes the audit reports of public higher education institutions are regularly modified (qualified). Most of the questionnaires stated below are closed-ended type, are not take much time.

Any information provided will have kept confidential. Therefore, I kindly request your esteemed cooperation for volunteer to respond the questionnaire and provide accurate and complete data. For more information, you may have contact me by the following address:

Tinsae Tekeste 0911 14 16 47 or Email: dtinsae@gmail.com

Thank you in advance for your time & cooperation!

Attention: Do not write your name.

Please **put tick mark on the box** that corresponds to your answer from the available choices.

Part One: Profile of the respondent

1. Your gender/sex

    3. Male
    4. Female

5. Your age
    1. below 20 years old
    2. 20-30 years old
    3. 31-40 years old
    4. 41-50 years
    5. 51 years or above

6. Your level of education
    1. Secondary school
    2. Diploma
    3. Degree
    4. Masters
    5. PHD

7. Your role in the finance department
    1) Finance director
    2) Finance manager
    3) Finance section head
    4) Senior accountant
    5) Other , please specify ________________________

Part Two: ***Factors that causes audit reports of higher education institutions are regularly modified (qualified)***

In this part, I am interested in identifying which of the under listed factor is highly related to audit reports of higher education institutions qualified. Please read the factors and indicate the extent of your agreement or disagreement by assigning the value 1-5 give your value to each extent of agreement or disagreement using the value assigned.

Possible Factors that causes the audit reports of higher education institutions are regularly modified (qualified)

	Strongly Disagree 1	Disagree 2	Neutral 3	Agree 4	Strongly agree 5
a. ***Nonexistence of clear policies and procedures*** *There is no operating manuals policies and procedures that guides the finance and procurement section of the universities, therefore the audit report is modified to what extent do you agree on this statement*					
b. ***Managements negligence to implement policies and procedures*** *One of the assumptions for material misstatement in financial statements is none implementations of policies and procedures, the management do not give emphasis on effective implementation of policies and procedures documented in the form of manual and rule book.*					
c. ***Lack of education*** *Public higher education institutions are owned by government, the government policy is to recruit staffs politically loyal than professionals therefore these none professionals in different position are causes of material misstatements in financial statements.*					
d. ***Nonexistence of laws that enforce the management to act according to the audit*** *is the cause of misstatement, I agree if there is a law enforcements that punish management who do wrong the misstatements will reduce*					
e. ***Timely actions are not taken by management*** *on previous audit recommendation so that no improvement is seen in the universities system and is cause of misstatement*					
f. ***Absence of competitive suppliers*** *in the economy major suppliers failed to execute the contract terms they signed or they delay the to complete*					

the work within the agreed period that causes the universities to incur costs above what is budgeted, or the work performed by contractors have defects that causes related to material misstatement in the financial statements					
g. experience of the reporting entities *Public higher education institutions are new for external audit because of none planned audit execution, management has difficulty to provide the right evidence to auditors that auditors take as scope limitation in their report.*					
h. Internal audit department *Internal audit department do not have the capacity to lead the control system it is incapable of planning, designing and implement control ahead, if its capacity is developed the misstatements will be reduced.*					
i. Volume of transactions *Higher educations are running huge amount of government budget most of the payments involve significant amount and the documentations expected for each transaction is more than other government entities therefore the huge budget is related to more material findings in public higher education institutions than other entities,*					
j. Managements experience *The audit findings in public higher education institutions are related to addressing the interest of some stake holders, if management were experts in stakeholder managed they could address most of the interest of the stakeholders so that the reports were expected to be not modified.*					
k. Managements perception to the audit report *Management do not give attention for the audit findings they perceive the audit report as simple fulfillment of their duties imposed and they assume audit reports do not have effect on their performance ratings.*					

Other factors and comments that should be included:- ________________________________
____
____
____

Thank you