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Addis Ababa University College of Business and Economics
Department of Accounting and Finance

The Impact of Provision of NAS to Audit Clients on Auditors
Independency and Audit Quality

By

Ejigsew Assaye

A Thesis Submitted to the School of Graduate studies of Addis Ababa
University in Partial Fulfillment of the Requirements for the Degree of
Master of Science in Accounting and Finance.

Advisor:

Habtamu Berhanu (PhD)

January, 2016
Addis Ababa, Ethiopia

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Statement of Certification

This is to certify that Ejigsew Assaye has carried out his research work on the topic entitled –The Impact of Provision of NAS to Audit Client on Auditors Independency and Audit Quality “. The work is original in nature and is suitable for the submission for the reward of MSc Degree in Accounting and Finance.

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Statement of Declaration

I, the undersigned, declare that this thesis is my original work, prepared under the guidance of Habtamu Berhanu (PhD). All sources of materials used for the thesis have been duly acknowledged. I further confirm that the thesis has not been submitted either in part or in full to any other higher learning institution for earning any degree.

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Place and date of submission: Addis Ababa University, January 2016

ADDIS ABABA UNIVERSITY
COLLEGE OF BUSINESS AND ECONOMICS
DEPARTMENT OF ACCOUNTING AND FINANCE

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Abstract

The independence of an auditor and maintaining audit quality has not only been viewed as an ethical issue within the auditing professional bodies like the International Federation of Accountants (IFAC), but also it is the cornerstone, which a successful audit is based. This paper examines whether provision of non-audit service to an audit client affects audit independency and quality. A questionnaire was used to collect data from fifty-three employees of eight private audit firms located in Addis Ababa. The responses obtained were analyzed using a quantitative and a qualitative approach with the help of SPSS. The researcher used stratified random sampling technique, and the study had seventy-four total audit firms in the industry. In relation to the impact of non-audit service on auditor independency and audit quality the result shows that, the provision of NAS to audit clients was found to provide auditors with greater experience of the client's industry and greater access to the client's accounting system. Additionally, such an arrangement was considered to enhance audit quality, but simultaneously it was also believed that a separation of engagement teams, which carries out NAS from audit services, was desirable since auditors are perceived to have greater credibility when the demarcation is clear. The study recommended Accounting and Auditing board of Ethiopia should properly scrutinize the work of private audit firms concerning NAS, provide continuous trainings, and establish upgraded set of guideline based on the best practices.

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Acronyms & Abbreviations

ACCA:	Association of Chartered Certified Accountants
AABE:	The Accounting and Auditing Board of Ethiopia
AICPA:	American Institute of Certified Public Accountants
CPA:	Certified Public Accountants
ECSAFA:	Eastern, Central, and Southern African Federation of Accountants
ECSU:	Ethiopian Civil Service University
EPAAA:	Ethiopian Professional Association of Accountants and Auditors
GAAS:	Generally Accepted Auditing Standards
IAASB:	International Auditing and Assurance Standard Board
IESBA:	International Ethical Standard Board of Accountants
IFAC:	International Federation of Accountants
IFRS:	International Financial Reporting Standards
NAS:	Non-Audit Service
NGO:	Non-governmental Organization
OFAG:	Office of the Federal Auditor General
US.SEC:	United States Security Exchange Commission
SME :	Small and Medium Enterprises

CHAPTER ONE

Introduction

The main purpose of this chapter is to provide general information about the thesis. The next sections of this chapter are organized as follows. The first section present the general background information of the study, the second section sets out the statement of the problem, the third section puts the objectives of the study, the fourth section outlines the research questions, methodology is presented in the fifth section, the sixth section outlines the scope and limitations of the study and it is followed by the seventh section significance of the study and organizations of the chapter is presented at the end section of this chapter.

1.1. Background of the study

Accounting and audit firms, and in particular the large international firms, have transformed themselves in the last 40 years from organizations, relatively modest in size with a primary focus on audit and the provision of services closely associated with audit.(Zeff, 2003)

The audit firms today have a major demand to be able to provide several services besides the audit to their clients (SOU, 1999:43; Tanewski& Carey, 2007). Companies that seek an audit do not only require an audit opinion on their financial statements but also a range of services.

Non Audit service may include consulting service such as system design, compliance related service, such as taxation,and accounting advice,and assurance related service, such as deligence.(Abdel-Khalik, 1990).

When an auditor does an audit report and they find errors, they make notes to the company with matters that have to be fixed in order for the auditor to give a “green light” on the audited company’s financial statement (Arrunada, 1999). It is at this point that non-audit services are essential for the audit firm as well as the audited company, since the company may need help from the professionals, the audit firm, to be able to meet up with the requirements that the audit notes requires (Elliot & Pallais, 1997). The audit firms on the market are therefore offering their clients a package deal consisting of non-audit services and the final audit opinion, since the market is asking for it (Arrunada, 1999).

When it comes to the non-audit services there are restrictions of how they can be performed, there has to be a strict separation of the employees that do the audit and the ones that do the non-audit services. The restrictions tell us what an auditor is allowed to do, which is only to give an audit opinion without any further help whatsoever when it comes to how to manage the errors the auditor discovers (FAR, 2012). The reason for this separation is that the auditor has to be independent in all situations while performing the audit. YeCarson and Simnett, (2006) suggest that the economic dependence of auditors on non-audit services, lengthy audit tenure and personal relationships built through employees have contributed to the erosion of auditor independence.

Auditor independency has been a major concern for a long time and considered as the most complicated and controversial, yet the cornerstone aspects of the audit profession because it strengthens the profession's commitment to the objectivity (Philmore et al. 2006)

The concept of independence has proved difficult to define precisely (Antle, 1984, Schuetze, 1994,). Representative definitions are:

- 'the conditional probability of reporting a discovered breach' (DeAngelo, 1981);
- 'the ability to resist client pressure' (Knapp, 1985);
- 'an attitude/state of mind' (AICPA, 1992; Moizer, 1994, ; Schuetze, 1994,);
- a function of character, with the attributes of integrity and trustworthiness being key
- (Magill and Previts, 1991);
- an absence of interests that create an unacceptable risk of bias – the AICPA White
- Paper definition (AICPA, 1997); and 'freedom from those pressures and other factors that compromise, or can reasonably be expected to compromise, an auditor's ability to make unbiased audit decisions' (ISB, 2000).

These representative definitions all reflect the importance of objectivity (ability to suppress biases) and integrity (willingness to express an opinion that truthfully reflects the evaluation of what has been discovered during the audit) as the two key aspects of auditor independence (Dunmore and Falk, 2001). Because independent behavior (or independence in fact) is generally unobservable, the appearance of independence assumes prime

importance. Empirical evidence also suggests that, rather than being an absolute concept, independence is a matter of degree (Bartlett, 1993).

The concept of Independence is divided into independence in mind and independence in appearance. Independence of Mind : state of mind that permits the expression of a conclusion without being affected by the influences that compromise professional judgment, thereby allowing the individual to act with integrity and exercise objectivity and professional skepticism. (IFAC, 2001 8.8, Australia, principle 14).

Independence in appearance: the avoidance of facts and circumstances that are so significant that a reasonable and informed third party would be likely to conclude, weighting all the specific facts and circumstances that a firm or a member of an audit team's integrity, objectivity or professional skepticism has been compromised. Impaired Independence is often presumed to lead to low quality of audit and increased likelihood of financial reporting that violates Generally Accepted Accounting Principles. (IFAC, 8.8, Australia, principle 14)..

Audit quality is considered to consist of a competency (knowledge) component and an objectivity (independence) component (Elliott and Jacobsen, 1998; Carmichael, 1999). DeAngelo (1981) defines audit quality as the combined probability of (1) detecting a material misstatement in financial statements (a competency issue) and (2) disclosing that misstatement (an independence issue). Audit quality is considered to consist of a competency (knowledge) component and an objectivity (independence) component (Elliott and Jacobsen 1998; Carmichael, 1999), also said (2) disclosing that misstatement (an independence issue).

1.2. Statement of the Problem

Generally Accepted Auditing Standards (GAAS), state that an auditor must maintain independence in mental attitude in all matters relating to the assignment. Independence can be maintained through external constraints (i.e., legislation and regulation) or through the profession itself, which will maintain independence to preserve its market value (Kinney 2004). Overall, the business press appears skeptical of auditors' ability to withstand client pressure, emphasizing the effect of economic interests.

There have been a number of Accounting and Auditing scandals over the past decades in the global era; this has led to widespread beliefs that provision of non-audit service can cause the auditors to compromise their independence. There are two main concerns. First, auditors may not stand up to management because they wish to retain the additional income from non-audit-service which is in management's gift and, second, the provision of a range of services to management may lead the auditor to identify too closely with management and lose skepticism.

There is still a demand from the stakeholders that the entity of interest have an auditor to "cleanse" the financial statements and provide high audit quality. But the auditors have more at stake than just the appearance as a "ritual priest" when the entities call for their aid to "cleanse" their financial statements (Pentland, 1993).

There are two opposing views regarding the impact of joint NAS provision on auditor independence. The first (arguably more common) view is that the economic bond (economic dependence) is increased and the relationship becomes too close, adversely impacting auditor independence (the US ruled based approach). The alternative view is that the auditor's knowledge of the client company is enhanced, and that such knowledge spillovers increase objectivity and independence (Goldman and Barlev, 1974; Wallman 1996).

According to different literatures, some authors have argued that the benefits of provision of non-audit service for audit clients are tremendous, like the audit firms have a good understanding of the business, bring their knowledge and skill to bear in other areas (spillover effect). Furthermore, the provision of such non-services will often result in the assurance team obtaining information regarding the assurance client's business and operations that is helpful in relation to the audit engagement. The greater the knowledge of the assurance client's business, the better the assurance team will understand the assurance client's procedures and controls, and the business and financial risks that it faces. A linked argument though one at a slight removes, is that the provision of NAS enhances the auditor's knowledge base and enables them to carry out a better quality audit, if the firm properly discloses the safeguarding mechanism in place (The UK, principle based approach). Whereas professional writers and the professional bodies have focused on independence as a mental

construct, others, for example, Wolnizer (1987), Power (1997, 2000), have identified the need for auditors to have a knowledge base, whether pre-existing or as a result of search and evidential enquiry, which enables them to form an independent opinion on the quality of financial reporting. In the absence of such knowledge, an audit is likely to degenerate into no more than an acceptance of management representation and be of correspondingly little value. As business activity becomes ever more complex as a consequence of globalization and expansion of markets for services and products, and then it is the provision of NAS which both adds value to the client and provides the auditor with the essential understanding of the mode and nature of the client's activities, an understanding which will underpin the audit opinion.

Such a viewpoint fitted comfortably within the portrayal of 'business risk audit' as a value-adding activity situated within the client's overall risk management strategy, with a focus on the overall control and corporate governance environment, knowledge of the business and a key assessment of management integrity (Lemon et al., 2000), and also within the framework of assurance services and consulting as a continuum with few defining break points (Jeppesen, 1998; Borit and Cockburn, 1998). There is no doubt that in many cases the provision of NAS will enable the auditor to have a clearer understanding of the nature of the client's activities and financial transactions.

On the contrary, others argue that the negative impact of independency impairment and quality compromising outweigh the benefits. The provision of non-assurance services may create threats to the independence of the firm or the members of the assurance team, particularly with respect to perceived threats to independence (like advocacy, familiarity, intimidation, and self-review).

Consequently, it is necessary to evaluate the significance of any threat created by the provision of such services. In some cases, it may be possible to eliminate or reduce the threat created by application of safeguards. In other cases, no safeguards are existed to reduce the threat to an acceptable level.

If the auditor is not seen to act independently of management, then the audit loses its value to all parties. A significant and persistent criticism of auditors, which has been raised many

times over many years, is that the joint provision by auditors of other services to management alongside the audit undermines their independence. In Enron, the fact that Andersen provided extensive NAS relating to the setting up of a number of the key off-balance-sheet vehicles, which were used to manipulate the financial statements, clearly provided them with knowledge of the relevant transactions– but in the end, this did not lead to a higher quality audit (Bartlett, 1993). The impact if the provision of NAS to the audit client on perceptions of auditor independence was the subject of empirical studies in many countries over the last forty years. The results of these studies indicate three different findings: negative effects; positive effect; and no effect. Despite this strong evidence of auditor independence in academic literature, the regulatory actions towards auditors have been aimed at imposing stricter requirements on performing non-auditing services.

In the context of Ethiopia, provision of both audit and no-audit services are allowed to be practiced by audit firms existed in the country (OFAG, Ethical code, 2009, p33-40). Moreover, they compelled by the Office of Auditor General to put in place appropriate mitigation or safeguarding mechanisms to deal with threats or risks that will be encountered in connection with provision both audit and non-audit service to audit client.

Even though the provision of non-audit service to audit clients is not grown well in Ethiopian situation compared with the global practices, it is sound and imperative to examine the prevailing situation in light of the, the presence of International Accounting, Auditing and Consulting firms through affiliated correspondance local firms, existing country capacity in attracting foreign direct Investments(The Presence of Multinational Companies), and the existence of two wings or arms (consultancy and Auditing) in most external audit firms, even, which are organized at individual level.

Moreover, as per the Ethiopian Financial Infrastructure review undertook by the world Bank (2007), the Ethiopian private audit services is in full of problems, issues like lack of tailored Accounting standards in line with the country context, inconsistency of financial statements being audited by the audit firms and standards referred, bases of audit fees, professional ethics, lack of quality assurance mechanisms by the regulatory organs, etc. The above-mentioned issues are also replicated in NAS, the problems are exacerbated due to

overlapping mandates in licensing the consultancy and audit services, and supervisory activities, and weak regulatory oversight, triggered the researcher to assess the existing problem.

1.3. Objectives of the study

In light of the problems which is discussed in the above, the study will have both general and specific objectives.

1.3.1. General Objective

The overall objective of this thesis is to examine how provision of non-audit services to audit clients affects the audit quality and independency of the auditors due to provision of non-audit service to audit client, from the perspective of private audit firms located in Addis Ababa.

1.3.2. Specific Objectives:

- To assess the perception and attitude of auditors on impairment of auditor independency and audit quality during provision of NAS to and audit client.
- To examine different types of threats to auditor independence and audit quality in relation with provision of non-audit service.
- To examine the existence of safeguarding mechanisms in the audit firms designed to curtail impairment of independency and compromising of audit quality.

1.4. Research Questions

In Order to meet the aforementioned objectives the study plan to examine the problem based on the following generic research questions;

Rq.1 what are the proxy or surrogate measures of audit quality and Independency?

Rq 2.How provision of non- audit services affect audit quality and independency of the auditor?

Rq3. What are the audit threats that arise in the course of provision of NAS to audit client?, and how this threats of independency and audit quality can be managed, which may arises from provision of non-audit service?

1.5. Limitation of the Study

The researcher encountered the following limitations

- The survey would be comprehensive, if it had included and measured the perspective and confidence of Investors from different Industries to invest in listed companies, if the secondary capital market is applicable in the country.(It considered the supply side only)
- Low response rate from questioners
- Involuntary response from some of the auditors

1.6. Significance of the study

The researcher believes that the result of this research paper would have the following significances:

- It shows how provision of non-audit service to an audit client impacts on auditors independence and audit quality, from practitioner auditors perspective
- The research paper may use as a spring board for further research in Ethiopia which is not widely researched

1.7. Organization of the study

This study is organized in to four chapters. The first chapter dealt with the problem and its approach. The second chapter focuses on the literature review followed by the third chapter that deals with research design and methodology, and chapter four data presentation and analysis. The last chapter presents the conclusion and recommendation part of the study.

CHAPTER TWO

Literature Review

The first chapter introduced the problem to be investigated in this study and objectives. Literatures included under this chapter are based on the relevance and relationship with the research subject matters. Since the researcher focus on the impact of provision of NAS to audit client on auditors independency and audit quality, it is discuss about NAS, independency and audit quality.

This chapter tried to emphasis that failure to avoid or to minimize different types of audit threats to acceptable level, as a major cause for impairment of auditor independency and audit quality. Moreover, the researcher incorporated other factors, which contributes for impairment of audit quality and independency like audit tenure, firm size, and audit fee, the researcher believes that they have strong synergy with the subject of the study.

This chapter is organized in to three sections. The first section deals with the theoretical underpinnings in connection with provision of non-audit service, audit quality, auditor independency, different types of threats that impair auditor independency, and safeguarding mechanisms that can be applied for different types of threats. The second section deals with empirical studies regarding NAS from the extant literature. The final section presents the summery and conclusion of literature review and identification of knowledge gap.

2.1 Theoretical review

This section tried to elaborate different theoretical insights or overviews related with the impact of provision of audit service to an audit client. In order to relate different theories with this study, the researcher tried to explore varieties of theoretical issues from different authors.

2.1.1 Non-Audit Service

Non-audit services that the audit firms provide encompasses besides traditional consulting in the field of accounting and tax issues, also includes consulting/advisory within for example business analysis, business development, financial analysis, valuation of company, IT, investments, strategic planning, HR, Installation and implementation of software and

hardware and outsourcing of the internal account functions (Elliot & Pallais, 1997). This service can be provided by the incumbent audit firm or another audit firm. Non-audit services constitute the source of non-audit income. The level and range of non-audit services (NAS) being provided by audit firms to their audit clients has increased greatly over the last few years. It is reported that in larger firms, non-audit fees now exceed the fees received from audit work; in fact many firms have re-branded themselves as professional service providers rather than audit or accounting firms (Beattie & Fearnley, 1999).

The motive for accountants and auditors to provide their services under the same component is because they want to complement each other's work and being able to provide their clients a package solution, (Arrunada, 1999). The difference between a consultant and an advisor from an auditor is mainly that a consultant can give the entity recommendation and assistance to enhance the quality of the financial statements.

Unlike the auditors, limited duties the consultant and the advisors work is not that restricted or scrutinized by the law, and there is no demand by law to use their services (Abdel-Khalik, 1990). The audit profession has matured over the years and the audit is under intense competition which has decreased their profit (Beattie et al., 1999). Because of this, it has become more of a rule than an exception to offer the audit clients a variety of services that extends considerably longer than the traditional auditing (SOU, 1999:43; Tanewski & Carey, 2007).

There is a need from the clients that the audit firm also provides non-audit services. The benefit to the audit firm is that a combination of audit services and non-audit services is cost effective in the matter that they can use the same information and knowledge in the audit as well as the consultancy assignment (Arrunada, 1999).

Another benefit for the client with this joint service provision (audit and non-audit) is that they can also take part of the audit firm's competence, especially in the field of the economic area. There has been suggestions that smaller clients/companies have a fundamental need of non-audit services since they don't have the same possibilities to perform this kind of activities unlikely bigger companies, since they do not have the same possibilities to hire staff or employees for those kind of duties (Johannisson & Lindmark, 1996; Tanewski &

Carey, 2007). An important benefit seen from the audit firms perspective is the fact that by providing non-audit services, the knowledge of the audited company is much less time consuming since they don't have to spend that much time to understand the audited entities connection with the non-audit services (Johan Olsson & Christian Ottoson,2013).

However, Bennet& Robson (1999a) argue that consulting and advisory is important for the company, but it is not life or death for the company's development. Even though companies utilize non-audit services frequently, they do not consider non-audit services to have a significant impact on the company (Bennet& Robson, 1999a). However, there is a risk that the consultant/advisor from the audit firm acts in a strong stake rather than the clients' interests (Bloch, 1999).

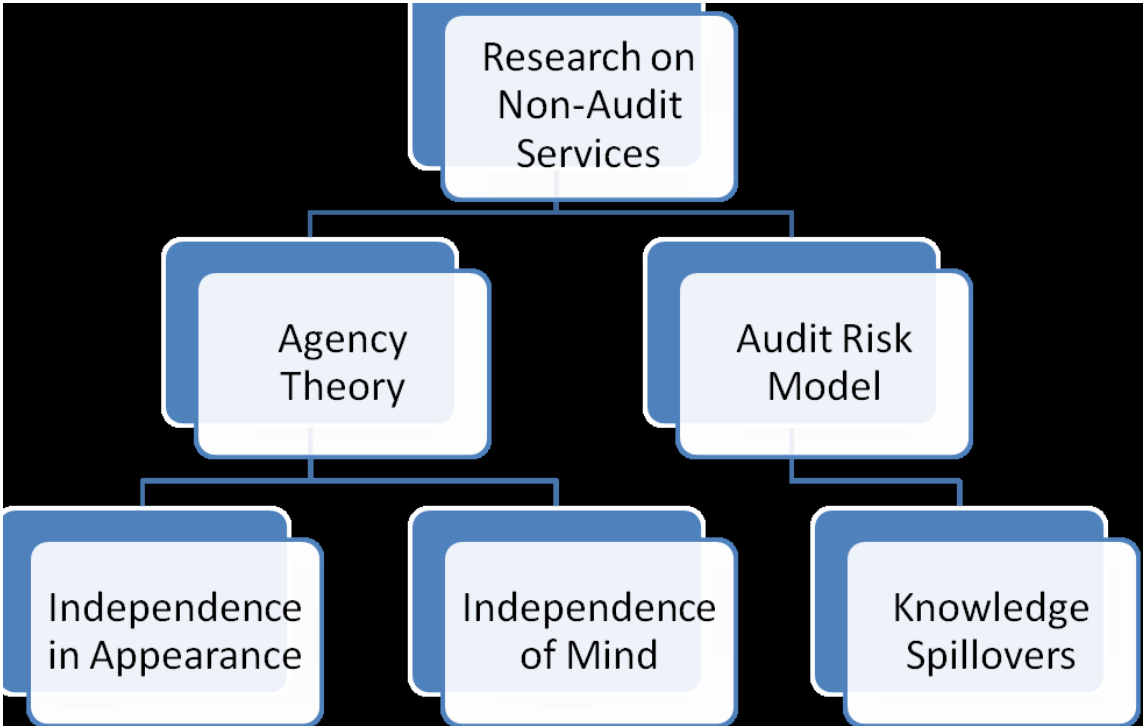
Auditors and consultants' role in smaller companies have been suggested to be manipulated towards an increased use of the audit firm's services (Gibb, 2000).

A possible risk could be that the consultant/advisor in advance chose several specific areas to focus on and that the consulting/advisory is not adjusted to the company's actual needs. Instead they point towards leveraging the profit for the audit firm (Mole, 2002). While the consultant and the advisors duties are quite holistic and transparent, it is still the auditors' opinion that is final for the company's financial statements, but what does the auditor do to get there? The mystery of the auditor .The company's stakeholders demand assurance before they are about to do any sort of business with them. It's at this point the auditor appears, like a "ritual priest" he manifests and waves with his magic wand, and the company is "clean" (Pentland, 1993).

Several academics strive to find an answer to why we need auditors and to what they exactly produce (Power, 2002).

According to Power (2002) suggests that an auditor produces paper, and a lot of it. The auditors themselves do not really produce anything new in the form brand new product. Instead they make their signature that the output that the company themselves has produced is fairly stated in all material elements. However, for the auditor to make sure that of this the audit obtains impartial evidence as Power (2003) says.

Moreover, according to Craswell,1999, the problem with these non-audit services that is seen by some is that the audit firms have an incentive to keep a client for which they provide audit services, because they also receive non-audit service fees from this client. As a way to overcome this issue, the Securities and Exchange Commission (SEC) United States, suggested the disclosure of NAS fees. They contended that the disclosure related to non-audit service fees (NAS) received by auditors would give investors insight into the relationship between a company and its auditor. In addition, they argued that the disclosure will reduce uncertainty about the scope of the relationships by providing facts about the magnitude of non-audit service fees.



Theoretical Concepts Used in Prior Research of Non-Audit Services

The theoretical concepts used as a framework in this study. The demand for auditor independence of mind as well as independence in appearance can be seen to arise from agency theory (Gray & Manson 2008, p.9). This information gathered from prior engagement is referred to as the knowledge spillover effect



Theoretical Concepts Used in Prior Research of Non-Audit Services

As is also evident from the literature review, prior research on non-audit services focuses on their effects on different measures of audit quality, which again can be affected by auditor independence concerns, or knowledge spillovers that affect auditor competence. The approach of this paper focuses on the effects of providing non-audit services to audit client on auditors independence and audit quality

2.1.2 Audit practice in Ethiopia

Government auditing in Ethiopia dates back the early 1931 constitution, which stressed the importance of the proper collection of the state revenue and the necessity of procedures to control expenditures but stopped short of either referring to or requiring any audit as such. This, in fact, had to wait for proclamation 69 of 1944, which established the Commission for

Audit, which was largely responsible for the examination and control of the accounts of the Ministry of Finance and was directly accountable to the Prime Minister. (Yohannes,1990)

According to Yohannes, the modern accounting in Ethiopia started during the 1900 Emperor Menelik established Finance and treasury ministry, which was to keep records of the King's treasury. The other issues is the development of public accounting in Ethiopian, begins when the British accounting firms like Price Waterhouse Peat & Co., established their branches in the Ethiopia around 1940(Yohannes Kinfu, 1990).

In 1946, proclamation No. 79/1946 was provided to centralize the audit and control of all Government accounts in one department by establishing the audit and control office under the direction of the comptroller and Auditor General who reported and was directly responsible to the Prime Minister (OFAG, 2008).

Senait (2003) mentioned that, Articles 120 and 121 of the revised constitution of 1955 clearly conferred the rights and duties of auditing all ministries, departments, and agencies to the Auditor General, whose office was then established as a separate, independent entity that reported directly to the Emperor and to Parliament. These articles demands the Auditor General to submit periodic reports to the Emperor and to Parliament on the financial operations of the government, and entitled the Auditor General to access all books and records pertaining to government accounts.

Subsequently, the functions of the Auditor General were amended by decree No. 32 of 1958, which was later renumbered as proclamation No. 179/1961 (OFAG, 2008). This proclamation has dealt with the appointment and independence of the Auditor General in addition to defining its powers and duties, which include auditing the accounts of all autonomous bodies existing by virtue of Imperial Charters (chartered organizations).

After the 1974 (1966 E.C.) Ethiopian Revolution, proclamation No. 164 of 1979 (19 71E.C.) was enacted to redefine the powers and duties of the Auditor General giving him additional responsibility of auditing mass organizations, development projects as well as conducting performance auditing. No further improvement was enacted to enabling law of the Office of

the Auditor General until the power and duties of the Office of the Auditor General were redefined by proclamation 13/1987(OFAG, 2008)

The Auditor General was then appointed by the Emperor and reported to him and the Parliament. The Office of the Auditor General conducted the audit of the Chartered Organizations, which were established to provide essential services to the public, through its chartered Organizations Audit Department (OFAG, 2008).

After the overthrow of the Military regime in 1991 and the establishment of a Federal State Structure by the 1994 Constitution of Ethiopia, the whole arrangement of government auditing structure changed and germane to this duties and responsibilities were separated in to the Federal and Regional audit institutions. Following this Law every regional states council promulgated a proclamation to establish an audit office. While article 101 of the New Federal Government Constitution provided the basis for the appointment, powers and duties of the Federal Auditor General, article 33 and 34 of the Proclamation No. 7/1992 specified the accountability, powers and duties of the Head of each National/Regional Audit and Control Office.(World bank Ethiopian Financial Infrastructure Review (2007).

Based on this constitutional provisions proclamation No. 68/1997 was enacted to establish the Office of the Federal Auditor General (OFAG), which gave the power and duty to undertake Financial and Performance audits (or cause to be audited) on accounts of the federal government offices and organizations, accounts involving budgetary subsidies and special grants extended by the Federal Government to Regional States. In addition to this activities OFAG has empowered to regulate the accounting and auditing profession include licensing of all auditors in the country, issuing a Code of Ethics for Professional Accountants, and taking disciplinary measures on proven acts of misconduct by professional accountants (Government of Ethiopia, Establishment of Office of Federal Auditor General, 1997).

As per World Bank (2007), OFAG was set up to make efforts in cooperation with concerned organs, to promote and strengthen accounting and auditing professions. OFAG has other broader responsibilities as provided for in the country's constitution. Article 101 (2) of the Constitution states that the Auditor General shall audit and inspect the accounts of ministries

and other agencies of the Federal Government to ensure that expenditures are properly made for activities carried out during the fiscal year and in accordance with approved allocations and submits his reports to the House of Peoples Representatives (OFAG, 2008).

The activities of OFAG in regulating the profession include licensing of all auditors in the country, issuing a Code of Ethics for Professional Accountants, and taking disciplinary measures on proven acts of misconduct by professional accountants. World Bank (2007) also indicates that, the ECSC was re-established through Council of Ministers Regulations No.121/2006. One of its objectives, as set out in these regulations, is to formulate standards and certify professionals. For these purposes, the ECSC has established Institute for Certifying Accountants and Auditors (ICAA). According to World bank (2007), the Ethiopian Professional Association of Accountants and Auditors (EPAAA) has no legal backing and is not a member of International Federation of Accountants (IFAC). The EPAAA was founded in 1972. From 1974 until 1992, EPAAA stayed dormant because of an unfavorable political environment. Following a change of government in 1991, EPAAA was revived. As per World Bank (2007), it has increased its membership from only 10 members in public practice in 1992 to 100 members (30 in public practice) as of September 2007 and It has also membership in Eastern, Central, and South African Federation of Accountants (ECSAFA). EPAAA's purpose is to further professional.

In the case of external audit, Dessalegn et al (2011) identified the two external audit sub-markets in the corporate governance setting of Ethiopia. The first is external audit of state-owned enterprises (SOEs). SOEs are fully government-owned and are governed by board of directors according to proclamation No. 25/1992 (Government of Ethiopia, 1992). Audit Service Corporation (hereafter, ASC), which was established by proclamation No.126/1977 (Government of Ethiopia, 1977), undertakes external audit of SOEs. This sector has a substantial prominence in the Ethiopian economy; for example, SOEs held more than 75 percent of the loan portfolios of commercial banks in the country as of July 2007 (World Bank, 2007 cited in Dessalegn et al., 2011). The second sub-market comprises private audit firms.

In 2010, House of Peoples' Representatives of the Federal issued Proclamation 669/2001 Democratic Republic of Ethiopia; to amend the power, duties and responsively of OFAG

(The Government of Ethiopia, Federal Auditor General Establishment (Amendment) Proclamation 669/2010, 2010).

Recently, Accounting and Auditing Board of Ethiopia established by Proclamation 847/2014 on January 14, 2015, by the regulation of the Council of Ministers. It is said to be the first public body on accounting and auditing and is empowered to register and license auditors, to conduct investigation and take measures on public auditors and entities having public interest, to issue standards of financial reporting, to give accreditation for accounting entities, to receive and register financial statements of reporting entities, to conduct quality assurance reviews of public auditors and other audit firms, as well as to advise government on matters of financial reporting. According to the Financial Reporting regulation enacted on December 5, 2014, the New Board established under Ministry of Finance and Economic Development serves the Nation as a regulatory body for financial reporting in the country, aimed at the creation of centralised and acceptable financial reporting, to reduce the risk of financial crisis and to comply with international reporting standards. Registration includes both entities and individuals working in the field and the entities need not fulfil the requirements. However, these businesses should fulfil the standards the Board adapted from the international accounting education standard within five years.

Accordingly, the Accounting & Auditing Board of Ethiopia (AABE) has begun registering individuals and entities who were engaged in accounting and auditing services prior to the establishment of the Board to execute the Financial Reporting Proclamation based on the transitory provision of the regulation issued on January 14, 2015. In connection with NAS, the researcher noted that the new board is issuing license for external auditors for undertaking both auditing and accountancy tasks.

2.1.3 Auditor Independence

Even though the independence of the auditor is quite difficult to define, it is obviously of crucial importance for the auditor's success. Auditor's independence is crucial in the domain of audit quality because the independent audit is spillover to the credibility and integrity of financial statements. Auditor's independence is the calibers of auditor to act, in mind and in

appearance, objectively without bias. A lack of independence affects an auditor's ability to exercise objective audit judgments and affects confidence in the audit process. It is essential that auditors to be independent and impartial, not only in fact or mind but also in appearance.(OFAG, Ethiopian Code of Ethics for professional Accountants and auditors, 2009).

Alim (2007) found empirical evidence that auditor's independence had a significant effect on audit quality. Other authors like Simunic (1984) said that, auditor engagements as management consultants can compromise auditor's independence.

Furthermore, Rittenberg et al. (2008) remarks that independence means being objective and unbiased while performing professional services. Ye, P.Carson and Simnett, (2006) said that the economic dependence of auditors on non-audit services, lengthy audit tenure and personal relationships built through alumni employees have contributed to the erosion of auditor independence

Non-audit service as an audit quality factor can have a considerable impact on auditor's independence, and different regulators at different jurisdiction have been deeply concerned about that. Hence, independent auditing can be considered as a fundamental specification in any Country .In this regard, most of regulators have stated that non-audit services can lead auditors to lose their independence in order to obtain larger non-audit service (Chen,etal, 2008; Gul *et al.*, 2007; Thornton & Shaub, 2014).

Abbott, et al, (2003) state that companies with independent audit committees pay lower non-audit services fees, however Reiner and Bent (2009) proposes that rendering of non-audit advisory services increases income, thereby results a threat to auditor independence. Moreover, Star (2002) said that with the collapse of Arthur Andersen, auditing profession as a whole has been badly blamed and changes were proposed to guarantee that audit firms reduce their overreliance on non-audit services.

However, on the other hand being afraid of losing reputation as well as litigation costs can maintain auditors independent (DeFond *et al.*, 2002).

According to SEC2000, regarding non-audit services, has mentioned two situations about auditor's independence: first, the probability that auditors become financially dependent of

clients because of non-audit services. Such dependence can result the auditors to prolong their engagement. Secondly, the consulting nature of many non-audit services may lead auditors to act against the audit process, because of the managerial roles.

By gathering more evidence, the auditor can easier be able to state an opinion and by that opinion produce more legitimacy to the audited company (Power, 2003). What can be stated from Powers (2003) view on audit procedures is that he sees the auditors work more as routines to produce paper and by that legitimacy while Pentland (1993) on the other hand see the auditors work as something more spiritual where the audit procedure more like rituals with a higher purpose.

The Independence of the auditor several of the academics and the regulators include independence of the auditors work as an incentive to perform the assignments with high audit quality (Francis,2004).The US Independence Standard Board (ISB) No.3: defines auditor's independence as to be independent, the auditor must be free only from those factors that are so significant that they rise to the level where they compromise or can reasonably be expected to compromise.

The auditors ability to make audit decisions without bias that is that the pressures and other factors compromise, or can reasonably be expected to the compromise, the auditors objectivity" (Hay, 2006). The only product of an audit is credibility added to financial statements by the audit report (Stettler, 1982).

Therefore, it is essential that the auditor is independent since no credibility can be added without an auditor's independence (Stettler, 1982). The relevance of the demand for independence can be explained as when the auditors do their reports, the auditors express their personal opinion about the audited material, which is in line with the existing norms. The auditor's opinion can be affected by other circumstances than what the rules implies concerning the audit (Hay, 2006).

According to Hay (2006), defines independence as the demands that the auditors are expected to follow to receive the demanded impartiality and self-containment. Whisenant (2003) also suggests that the auditor is independent when he or she while performing an

audit has the ability and will to make evaluations and decisions based on a foundation of existing facts without letting themselves be affected by others wishes and desires.

Lee (1993) suggests that an auditor should claim his/her independent attitude to avoid impact of conflicts of interest. While the actual independence refers the auditors own interpretation and his or her ability to perform the audit, they cannot just act independent to assure that the business is meaningful (Lee, 1993; Hay, 2006).

The auditor needs to convince the market of his independence as a tool to create a demand for the audit services (Wines, 2011). The independence of the auditor has long been known as the most important professional asset of the auditors, and if the auditor act in a way that diminish he/she will risk getting penalties as well as loss of reputation (Johnstone et al., 2001). Watts & Zimmerman (1986) define the auditors reputation as a collateral bond for independence, in that the reputation for the auditor tend to be diminishing the independent than expected will be harmed and also the present value of the theirs audit services will be reduced.

In the USA, there are professional and regulatory bodies that set up requirements, regulations and codes that helps to scrutinize, control and checks the quality of the auditors work, with the purpose of securing the independence and safeguard the interest of the stakeholders (Wines, 2011). advocacy and client service (AICPA, 1994 cited in Rocco et al., 1997).

Etienne et al. (2010) noted that in 1994, AICPA instituted that firms as well as individual CPAs should exercise professional independence before accepting an audit position in a client's accounting or financial reporting issues. As per Rocco et al. (1997), the AICPA audit standards and the code of professional ethics both emphasize independence as a precondition in expressing an opinion on financial statements.

The AICPA code of professional ethics explain that a CPA shall not express an opinion on financial statements of an enterprise unless he and his firm are independent with respect to such company and an opinion on the fairness of presentation of financial statements should be issued only if he or she is independent of the client both in mind and appearance (Rocco et al., 1997).

In the US context, the American Institute of Certified Public Accountants (AICPA) like their counterparts in different associations worldwide, are charged with the responsibility to attest on economic data presented by one party to another; and this attestation function will only be credible if the auditors are independent and competent (Etienne et al., 2010). In situations when the auditor is not independent and their competence is questioned, the effect could be clearly seen in the financial statements in that such data cease to become credible, as it cannot be relied upon for strategic economic decisions by users.

According to Etienne et al. (2010), it could clearly be seen that independence is a cornerstone for successful and reliable audit. If independence is impaired, then it could be reflected in the audit report in terms of its quality.

Further, Pany and Reckers (1984) found that financial statement users were highly concerned about independence impairment when auditors provided consulting services to the audit-client, although they were less concerned if a separate division of the CPA firm performed the consulting services.

2.1.4 Threats affect auditor's independency and Auditor quality

According to IFAC (2004), and IESBA Code 290 independence is potentially affected by self-interest, self-review, advocacy, familiarity and intimidation threats. A circumstance or relationship may create more than one threat, and a threat may affect compliance with more than one fundamental principle. Moreover, according to (Beattie & Fearnley, 2002) provision of non-audit services could provide a real or perceived threat to independence.

The threats to compliance are listed and described as follows in the IESBA Code:

Self-interest threats: the threat that a financial or other interest will inappropriately influence the professional accountant's judgment or behavior. Examples of circumstances that may create this threat include a direct financial interest or material indirect financial interest in an assurance client; Potential employment with an assurance client; and contingent fees relating to assurance engagements.

Self-review threat: the threat that a professional accountant will not appropriately evaluate the results of a previous judgment made or service performed by the professional accountant, or by another individual within the professional accountant is firm or employing

organization, on which the accountant will rely when forming a judgments part of providing a current service. Examples of circumstances that may create this threat include: a member of the assurance team being, or having recently been, a director or officer of the assurance client; a member of the assurance team.

Advocacy threat: the threat that a professional accountant will promote a client or employer's position to the point that the professional accountant's objectivity is compromised. Examples of circumstances that may create this threat include dealing in, or being a promoter of, shares or other securities in an assurance client; and acting as an advocate on behalf of an assurance client in litigation or in resolving disputes with third parties.

Familiarity threat: the threat that due to a long or close relationship with a client or employer, a professional accountant will be too sympathetic to their interests or too accepting of their work. Examples of circumstances that may create this threat include a member of the assurance team having an immediate family member or close family member who hold strategic position in the assurance client.

Intimidation threat: the threat that a professional accountant will be deterred from acting objectively because of actual or perceived pressures, including attempts to exercise undue Influence over the professional accountant .Examples of circumstances that may create this threat include: threat of replacement over a disagreement with the application of an accounting principle; and pressure to reduce inappropriately the extent of work performed in order to reduce fees.

2.1.5 Audit Quality

Several of academics, professional bodies and regulators have attempted to define what audit quality really is, but there is no universal or clear definition yet on the definition of audit quality (IFAC, 2011).

Turley and Willekens (2008) states that audit quality is normally connect with the ability of the auditor to identify material misstatement in the financial statements and their willingness to issue an appropriate and unbiased audit report based on the audit output.

The widely used definition by many researchers is a definition set by DeAngelo (1981) defined audit quality as the market-assessed joint probability that an auditor will discover an error in the client's account and reports the error to the third parties. She also defines main element of audit quality is.

First, auditor's capacity to identify and willingness to report material misstatement on the client's accounting system that is related to the professional competence or caliber of individual auditor or the audit firm which is one of the element the fundamental principle of Ethical Standards.

Second, reporting the error or irregularity identified by the auditors in his audit report, this can be related with auditor independence, integrity, objectivity and professional behavior of the auditors.

Duff (2004), also said audit quality consists of technical and service quality (the degree of customers' satisfaction and meeting their requirements.)

According to Arezoo (2011), audit quality can measure from two dimensions. First, direct measure like reporting compliance with GAAP, quality control review, bankruptcy, desk review and SEC performance. Second, indirect measures like audit tenure of auditor multiple clients in the same industry, and economic dependency of auditor.

Some studies find a significant positive association between audit firm tenure and audit quality, thus supporting the auditor expertise assumptions (Chen *et al.*, 2008)

The appearance of the audit quality can be described in a range from very low to very high audit quality (Francis, 2004).

The audit debacle can be divided into two categories, there can be the auditor, or when the auditors fail to do the audit, report (Francis, 2004) cannot enforce a question of the general accountancy principles.).

According to Francis (2004), describes the ability to explore audit quality, there is no universal definition of what it is and the only product of an audit is the audit report which makes it difficult to describe audit quality. On the other hand, there is easier to loose audit

quality when audit failures occur (Francis, 2004). Even though there is no universal definition on the audit quality there is a lot of attempts to assure that the auditors act with high audit quality (Francis, 2004). The stakeholders desire high audit quality and because of that there is a demand for safeguards that can assure that there is high audit quality (Hayes et al, 2006).

IFAC (2011) contributes a possible perception of the investors/stakeholders view on audit quality, the stakeholders' perceptions on the audit quality are dependent on the ability from regulators and contributors of safeguards to assure its existence. The expectations or the auditors' ability to perform audits and non-audit services with high quality can be drawn to following theories seen from both the regulators and the practitioners perspectives (Hayes et al., 2006). The auditors have these demands on their work, the demands that the regulators and contributors of safeguards perform rules and control the auditors work (Hayes et al., 2006).

Several researchers examined the factors, which impair audit quality. Size and independence related issues (i.e. the proportion of audit fees received from a particular client compared with non-audit fee, auditor tenure, the provision of NAS and other audit client relationships) are considered elements trigger audit quality. Auditing quality is the combined probability that the auditor will detect and report on defects in accounts (Watts and Zimmerman, 1986).

Some studies find a significant positive association between audit firm tenure and audit quality, thus supporting the auditor expertise assumptions (Chen et al., 2008). In contrast, Alope et al. (2005) argue that audit quality declines with extended audit tenure because, as tenure increases, client firms have greater reporting flexibility and earnings forecast errors decline.

Moreover, IFAC, (2007) explain that, quality is the most fundamental characteristic of international auditing standards, and quality standards should be capable of consistent interpretation, enforceable, capable of unambiguous translation, and designed to achieve a high quality audit.

2.1.6 Safeguards for threats which can impacts independence and audit quality

IESBA define safeguards are actions or other measures that may eliminate threats or reduce them to an acceptable level. Safeguards of any potential threat can be categorized as Safeguards created by the profession, legislation or regulation which include Educational, training and experience requirements for entry into the profession, Continuing professional development requirements, Corporate governance regulations, Professional standards Professional or regulatory monitoring and disciplinary procedures. (IESBA, 2013). Eilifsen et al. (2006) cited in Etienne et al. (2010) noted that different safeguards can be used to mitigate different threats, and one safeguard can be used to mitigate more than one threat simultaneously.

Safeguards in the work environment will vary depending on the circumstances of the threats that can be occurred. Work environment safeguards comprise firm-wide safeguards and engagement specific safeguards.

IESBA identify the following possible firm-wide safeguards that can be set at work environment includes:

- a) Policies and procedures to implement and monitor quality control of engagements.
- b) Documented internal policies and procedures requiring compliance with the fundamental principles.
- c) Policies and procedures that will enable the identification of interests or relationships between the firm or members of engagement teams and clients.
- d) Policies and procedures to monitor and, if necessary, manage the reliance on revenue received from a single client.
- e) Using different partners and engagement teams with separate reporting lines for the provision of non-assurance services to an assurance client.

IESBA identify the following possible engagement-specific safeguards that can be set at work Environment includes:

- a) Having a professional accountant who was not involved with the non-assurance service review the non-assurance work performed or otherwise advise as necessary.

- b) Having a professional accountant who was not a member of the assurance team review the assurance work performed or otherwise advise as necessary.
- c) Consulting an independent third party, such as a committee of independent directors, a professional regulatory body or another professional accountant.
- d) Discussing ethical issues with those charged with governance of the client.

IESBA identify the following possible engagement-specific safeguards that can be set at work environment includes:

- a) Having a professional accountant who was not involved with the non-assurance service review the non-assurance work performed or otherwise advise as necessary.
- b) Having a professional accountant who was not a member of the assurance team review the assurance work performed or otherwise advise as necessary.
- c) Consulting an independent third party, such as a committee of independent directors, a professional regulatory body or another professional accountant.
- d) Discussing ethical issues with those charged with governance of the client.
- e) Disclosing to those charged with governance of the client the nature of services provided and extent of fees charged.
- f) Involving another firm to perform or re-perform part of the engagement.
- g) Rotating senior assurance team personnel.

2.1.7 Audit and non-audit Fee Amount

Fee is any fee established for the performance of any service pursuant to an arrangement (Duska, et al, 2003). In most studies, audit independence is surrogated by the relative magnitude of the audit fee as against the non-audit fee received from a particular audit client.

According to Hoitash (2007), envisaged that the fees paid to auditors can affect audit quality in two ways. First, large fees paid to auditors may increase the effort exerted by auditors and thereby increase audit quality. On the other hand, large fees paid to auditors, particularly those that are related to NAS, make auditors more economically dependent on their clients.

Accordingly, Audit fees decreases with the increase in competition, the greater the number of competitors the lower the audit fees are charged, (e.g., Maher, et al, 1992; Hay et al, 2006).

Audit fee research has also documented client size is an important determinant of audit fees (Simunic 1980; 1984; Francis 1984), and recent research indicates that the relative magnitude of non-audit fees also is higher for larger clients (Abbott et al, 2002). Together, these results suggest that audit opinions may be influenced by the magnitude of non-audit (and audit) fees received from clients.

Moreover, a research undertaken by (Hsuihui, et al, 2013) in Taiwan context reveal that the sample exhibits substantially more firms reporting NAS percentages slightly below the 25% threshold than those reporting slightly above, consistent with the notion that companies seek to avoid public disclosure of auditor fees. Firms reporting NAS fee percentages slightly below the 25% threshold had significantly poorer audit quality than firms just above the threshold, and therefore being required to disclose auditor fees. Generally, most of the studies find evidence supporting that Non Audit Service and abnormally higher audit fees indeed reduce the audit quality-putting auditors in a compromising position which threaten their independence (DeAngelo 1981; Choi, et al. 2010). However, Barkess and Simnett (1994) and Craswell (1999) in two large sample studies find no significant association between the level of NAS fees and audit report qualifications.

Geiger and Rama (2003) find that audit fees were positively associated with going-concern modifications, but that NAS fees were not significantly associated with going-concern modification decisions. However, Wines (2011) finds evidence of a negative association between non-audit fees and the issuance of any type of qualified report in a sample of 76 Australian companies.

2.1.8 Audit firm size

In connection with audit firm size, one of the suggestions is to use auditor size as a quality surrogate on the ground that larger audit firms (in terms of market share) provide quality audit than their smaller counterparties.

When studying the “Big Four” WebPages there is several options of service packages for the client. In the package deal, the client can choose one of these packages if desired, this to a fixed price and after the choice, the client can add the audit from the same audit firm (PWC,

2013; KPMG, 2013; Ernst & Young, 2013; Deloitte, 2013). Within the package deals, there are services that refer to the non-audit services and outside the package is the audit. The benefits of choosing the audit simultaneously as the service package are that the prices tend to be more appealing (PWC, 2013; KPMG, 2013; Ernst & Young, 2013; Deloitte, 2013).

According to Feltham, Hughes and Simunic (1991), Dye (1993), Clarkson and Simunic, (1994) said that firms that are wealthy are not economically dependent on their client companies. They are therefore more motivated to carry out proper examinations of client companies with the required independently and quality, therefore, they are able to avoid being sued for wrong reports and in cases of audit failure, they can shoulder their responsibilities, and presumed to have capability to conduct high quality audit.

Clients would pay more to the international big firms due to their Brand name and the higher audit quality provided. Prior studies (Simon et al., 1992) find that the Big Eight or Big Five, now the Big Four (Ernst &Young, Deloitte, PricewaterhouseCoopers (known as PwC) and KPMG) audit firms receive premium fees in many countries compared to non-Big Four (Palmrose, 1986; Francis & Simon, 1987; Butterworth & Houghton,1995).

2.2 Empirical Studies

There are arguments regarding to the impacts of provision of non-audit service to audit client on auditors independence and audit quality. To understand these arguments, the researcher explored out the following empirical evidences based on their relevance or importance for this study.

Supporters of the idea of provision of audit services enhances synergies of knowledge spillover and audit efficiency arise from providing both audit and non-audit services. The opponents contend that provision of non-audit services increases the auditor's financial dependency on the client and therefore may impair auditor's independence. Proponents of provision of NAS argue that a clear segregation of the staff performing the consultancy and the staff performing the audit are in place, which is strictly regulated by the accounting law and other directives (Robson, et al, 2007). The auditors only do the audit and the consultants only do the consultancy, but they argue that it is difficult to draw a clear distinction line between auditing and consultancy, and its objectives and processes is become ambiguous.

Most of empirical researches in different countries exhibit mixed results (positive, negative and no effects).

Empirical studies have shown that at least 70% of the multinational or big companies that hire an audit firm also hire the same firm for non-audit services (Kirby & King, 1997; Bennett & Robson, 1999a). Studies have also shown that smaller companies usually hire an auditing firm for non-audit services (Kirby & King, 1997; Bennett & Robson, 1999a; Burke & Jarratt, 2004). There have been studies that suggest that non-audit services gives competence that is very important for smaller companies' survival and their ability to develop competitive benefits (Gooderham et al., 2004; Santoro et al., 2007).

Nutek, 2000; Gooderham et al., 2004). A possibly explanation to this fact can be that the relation established between the audit client and the audit firm throughout the audit (Johan Olsson & Christian Ottoson, 2013). The established relationship that the audit firm obtained from the audit client during the audit may have an impact on the propensity to ask for non-audit services (Johan Olsson & Christian Ottoson, 2013).

Moreover, research concerning auditor independence and audit quality may benefit from cross-country comparisons due to regulatory and cultural differences. Examination of various countries would likely reveal differences in the incentives, perceptions, and behaviors of the multiple parties (auditors, clients, and financial report users). For example, using a sample of Big 6 auditors from seven European countries, Arnold, Bernardi, and Neidermeyer (1999) find some association between litigation risk and the auditor's consideration to perform additional to audit work.

According to (Ratzinger-Sakel, 2013) study, most U.S. studies find no evidence that NAS impair actual audit quality, based on examining Auditors' reporting decisions. However, a German study reports that Big 4 auditors are less likely than non-Big 4 counterparts to issue qualified report to clients with high NAS fees. This finding is at least in part due to low litigation risk in Germany, as the "deep pockets" of Big 4 auditors expose them to high litigation risk in the United States, but not in Germany. Therefore, this German finding suggests that the concerns over litigation, rather than over reputation, play a more important role in lessening the economic bond between the client and the auditor.

Davis, et al. (1993), on his research stated that audit data from one large public auditing firm and report that there is ~~no~~ research evidence for the argument that providing NAS for audit clients creates situations that may lead auditors to compromise their independency. (Lennox 1999) also said that, It appears that the relationship between non-audit services and audit quality is ambiguous.

Sharma and Sidhu (2001) examine audit opinions of bankrupt companies and found that higher non-audit service fees influenced audit opinion regarding going concern, and affects audit quality negatively. Additionally, Sharma (2001) and Sharma and Sidhu (2001) examined 49 bankrupt Australian companies and conclude that higher NAS fees were associated with a lower likelihood of receiving going-concern modified reports.

Moreover, (Babatunda and Kolawole 2011) conducted a study, in Nigeria on a research titled ~~Non-audit service and auditor independence –Investor perspective~~ from 142 Investors, the research results, 78.2% of the total respondents agreed that auditors cannot maintain their independence while promoting non-audit services to their audit clients; 24.6% disagreed with this statement, and 66.9% of the total respondents agreed that auditors should not legally be allowed to provide non-audit services for their audit clients while 31.7% disagreed with this opinion. In addition, subsequent studies by Beattie et al. (1999) and Canning and Gwilliam (1999) of UK and Irish financial statement users respectively both suggested that increasing levels of fees from NAS can impair the perception of auditor independence. Dart (2011) also suggested that UK investors expressed increasing concern about the quality of audit when there was significant provision of NAS.

A study also had been conducted by Salehi and Moradi (2010) in Iran on Iranian accountants' and shareholders' perceptions on NAS and their effects on audit independence. Their results showed that practicing NAS to the same audit clients have strong negative effects on auditor independence. The study was based on 2,151 completed questionnaires that distributed to participants with accounting knowledge (literate participants) and without accounting knowledge (illiterate participants). The majority of the participants confirmed that there is a negative effect on audit independence when there is a large amount of audit fees and illiterate participants have more negative perceptions. They agreed that presenting

bookkeeping and managerial consultancy services to the same clients will impair auditor independence.

Whisenant et.al., (2003) in a study of 2666 firms in the year 2000 discovered that non-audit fees do not directly influence audit fees and that audit fees do not directly influence non-audit fees.

Antle et al. (1997) found no evidence that the pricing of auditor liability insurance to the Big Six firms was affected by the level of provision of NAS by the individual firms and concluded that "because the insurers have such an obvious and direct monetary interest in such matters, this is evidence that the supply of non-audit services has not damaged auditor independence.

The economic theory of auditor independence that postulates the potential for compromise of independence where incentives to do so are present, was tested by Chung and Kallapur (2003), who used a sample of proxy statements from 1,871 Big Four clients, to determine ratios of client fees to total audit firm revenue (to establish economic dependence) and the ratio of the clients' NAS services fees to total audit firm revenues. Regression techniques revealed no association between abnormal accruals and the client importance ratios, providing evidence that is inconsistent with the economic theory of auditor independence, but that is in line with the arguments of Goldman and Barlev (1974), who assert that NAS increase an auditor's value to the client, thereby placing the auditor in a stronger position to resist client pressure.

However, a study undertaken by Nada , (2013) on the perceptions of Auditing and provision of NAS, case study in Libya, from the perspective of 147 finance managers, accountants and internal auditors of oil companies, and 100 external audit firms the result suggested that: the provision of NAS to audit clients was found to provide auditors with greater experience of the client's industry and greater access to the client's accounting system. Additionally, such an arrangement was considered to enhance audit quality, but simultaneously it was also believed that a separation of NAS from audit services was desirable since auditors are perceived to have greater credibility when the demarcation is clear.

Moreover, Gul (1989) studied the perceptions of bankers in New Zealand and found that the effect of provision of NAS was significantly and positively associated with auditor independence. Hussey (1999) reported that the majority of the UK finance directors that participated in his study suggested that joint provision of audit and NAS to audit clients should continue to be allowed.

Conclusions and knowledge gaps

Even though, the aforementioned empirical review tried to demonstrate different findings as per their study area and countries context, it does not necessarily mean that it would replicate elsewhere. Moreover; the target population or frame of reference, and research methodology is different among countries. In addition, in the above studies revealed mixed results, which one's conclusion contradicts with another.

The paradox on the provision of non-audit service to an audit client is widely researched in the global era, after the debacle of Big Corporations like Enron, worldcom, and like using different research techniques, however, as far as the researcher's knowledge is concerned a study with similar title or issue is not undertaken so far in Ethiopian context. Nevertheless, there are many studies carried out in connection with other factors like audit fee, firm size, other factors that can lead to impairment of audit quality and independency, from different industries perspective. Therefore, the current study is a kick-off for the subject matter, and tried to fill the gap, which is mentioned in the above.

CHAPTER THREE

Research Design and Methodology

The previous chapter dealt with review of related literature on the Impact of provision of NAS to an audit client. This chapter demonstrates the research methodology, which reflects how the study was commenced. This chapter also looks at the reason why the researcher used each of the option used in the study. This chapter describes and discuss the research approach, choice of subject, source and data collection procedures, and data analysis and interpretation.

3.1 Research Methodology

In order to achieve the research objectives, both quantitative and qualitative (i.e. mixed approach) were used. The rational for the use of such a mixed method approach is to collect data that could not be addressed by adopting a solo approach.

Regarding sampling technique, the study used stratified random sampling (because the audit firms in the industry organized as A, B, and C grades), under stratified random sampling units from each main group are included and may be more reliably representative. The study used questioner to collect data, from external auditors in the case of private audit firms in Addis Ababa with the main objective of how the provision of non-audit service affects auditor independency and audit quality, and uses secondary data to review existed regulatory frameworks and safeguarding mechanisms used globally and in Ethiopian context. The survey encompasses both open and closed end questionnaires. The reason for the use of questionnaire for this study is that the main purpose of the study has qualitative and quantitative nature. The study targeted fifty-three auditors drawn from eight audit firms and the questionnaire were circulated to them.

3.2 Choice of subject

The independence of any auditor is a critical aspect of the auditing profession, as independence underpins the stature of the profession the only justification for the existence of Auditing firms that provide audit and non- audit services. The issue at stake now is whether provision of non-audit service to an audit client; can risk them establisihement of too cozy relation with the clients thereby putting their independence in to question. This will

in turn make those who depend on the financial statements to consider them unreliable; this attracts the researcher to commence this study.

3.3 Research Approach

Under this research, mixed approach (the combination of both quantitative and qualitative approach) is used and believe suited to provide further explanations about the impact of provision of NAS to audit client on auditor independence and audit quality. The reason for choosing qualitative approach due to the aim of receiving in depth information regarding the impact of provision of NAS to audit client on auditors independence and audit quality from the perspective of private external auditors in Addis Ababa. The researcher used the benefit of mixed methods approach by mitigating the bias in adopting only either quantitative or qualitative approach and to get the advantages of collecting both closed –ended quantitative data and open-ended qualitative data to best understood a research problem.

3.4 Source of Data and data Collection Procedures

According to (Kothari, 2004), there are two sources of data that can be used to make a research which are primary sources of data and secondary sources of data, this study used both primary and secondary data collection methods. Primary sources of data collected through questionnaire, whereas secondary data will be generated through a review of relevant documents. These two different sources of data, the primary source used as the main empirical data for the analysis, while the secondary source used to describe theories.

a) Primary data has been gathered from principals and/or audit managers, and senior auditors of private audit firms included under the research sample though questionnaires. The types of questioners can be open and closed ended. Questionnaire can save time but the response rate may be low. Under the current study, open and closed ended questions are prepared for the respondents. A research questioner was adopted from Nedal (2013), and upgraded, from various studies, from the relevant literature review, objectives of the study, and feedbacks incorporated from pilot studies carried out in three audit firms, the questioner has been used and distributed among private auditors in Addis Ababa to know their perception concerning to the impacts of provision of non-audit service to an audit client on auditors independence and audit quality. The closed ended questioner was designed based on Likert scale model with 5 choices; “strongly agree”, “agree”, “neutral”,

–disagree” and –strongly disagree” (see appendix). The reason why the researcher chose to use a Likert scale is that it is suitable for measuring attitudes or perspective, which is expressed in the purpose of this study. Another reason for using five point Likert scale is that earlier research which the researcher borrow much from for this study, used the same scale (Kothari, 2004.)

As it is mentioned before, the instrument tool was both open ended and close-ended questions for the target participants (external auditors). This is due to the fact that, in the qualitative approach open ended questions are preferable to get further understanding about the phenomenon (Mack et al., 2005), and close ended questions are suitable for the quantitative approach to measure objective types of response rather than subjective as to whether provision of non-audit service to an audit client can either impair or not impair auditor independence and audit quality. The questioner is prepared in English for the target participants i.e. external auditors. In order to get a higher response rate, an introduction letter was sent to the respondents prior to the questionnaire where in briefly described the objective of the study. The questionnaires were distributed for fifty-three auditors drawn from six private audit firms.

- b) Secondary data - Document Review has been gathered from publications on professional ethics of accountants _issues by OFAG, empirical researches issued so far in this area, from different journal and articles, and different literatures.

3.5 Target Population and Sampling Methods

The sample in this study has been disaggregated or stratified based on the grade of the audit firms as portrayed in the table below.

There were 74 private audit firms included in the 2014 list of audit firms issued by OFAG. These audit firms categorized as Grade –A”, Grade B, and Grade –C”. Which composed of 14% are belongs to Grade A, 20% are belongs to grade B, and 66% are belongs to grade C of the total population. The researcher used the grade classification of the audit firm as a stratum and categorized the audit firms into three groups (i.e. group 1, grade A audit firms; group 2, grade B audit firms and group 3, grade C audit firms). The table below manifests the number and percentage of audit firm categorized under each group and the sample size

selected from group for this research undertaking. As presented on the table below, from the total 74 audit firms listed on OFAG list, 49 audit firms, which represent 66% of the total population, belongs to grade C. The study selected three, three, and two audit firms respectively from group A, B, and C, and make total of eight firms, which results the composition more representative.

Moreover, the researcher purposively selected fifty-three auditors based on the fact that Grade A and B, auditors have wider access, and pragmatic experience to the dual assignment on the industry, as revealed below. A response rate of 70-80% were expected from the survey.

Table 1 Sample Frame

Audit firms Grade	Number of audit firm under each group	Percentage of representation from the total firm	Purposively selected 8 audit firms from each category	Auditors selected based on Sample size for each group
A	10	14%	3	20
B	15	20%	3	18
C	49	66%	2	15
Total	74		8	53

Source: Author’s calculation of industry composition, based on OFAG official updated list of 2014, and random assignment.

3.6 Data Analysis and Interpretation

Data collected using questionnaire was analyzed through descriptive statistics using Statistical Packages for Social Scientists (SPSS). It helps to describe what the data look like, where their center is, how broadly they are spread in terms of one aspect to the other aspect of the same data (Leary, 1995). Thus, it helps to make comparison between the impacts of provision of non-audit service to an audit client on audit quality and independency during provision of non-audit service.

CHAPTER FOUR

Results and Discussion

Under this chapter the results of the data analysis collected from respondent firms through questionnaire has been discussed. As it is mentioned before, the main purpose of this study is to examine whether auditors independence and audit quality can be impaired when auditors have provided NAS to audit client.

The analysis of this chapter is categorized into ten sub sections. Under the first section, background information of the respondents presented; which includes gender and year of experience working as an auditor. The second section consists the analysis of response rates and missing values of the respondents.

Finally, the main body of this chapter; which are factors affects audit quality and independency during the provision of NAS to audit client, like impact of provision of NAS on independency, quality, audit fee, and threats of auditors independence and audit quality, which might arise from dual provision. These threats are self-interest threats, self-review threats, advocacy threats, familiarity threats and intimidation threats. As mentioned in chapter three, under this chapter, the results, which are gained from the respondents, were presented and analyzed with the help of SPSS (i.e. simple descriptive statistics).

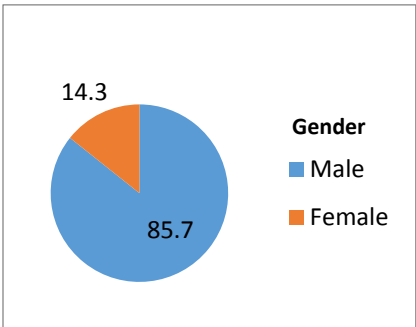
The final section has discussed the analysis of open-ended questions included on the questionnaires.

In general, the above-mentioned items are briefly presented and discussed in the subsequent sections of this chapter.

4.1 Background Information

For the purpose of this study 53 questionnaires have been distributed to external auditors, there were 35 responses of these, 30 (85.7%) were male and 5 (14.3%) were female. In general, the following figure shows the distribution of the respondent's gender.

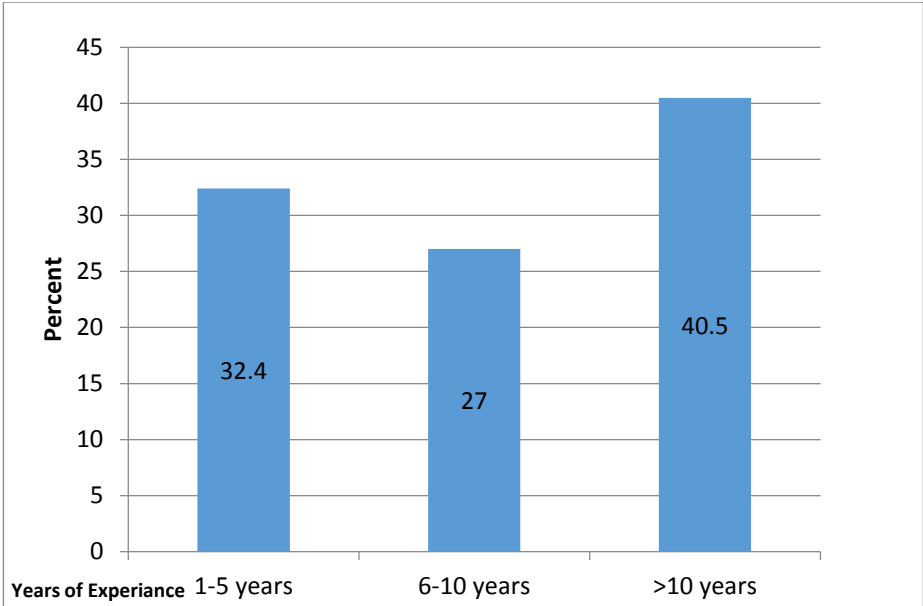
Figure1: Distribution of Gender



Source: Own Summery Source: SPSS survey data, 2015

As one can see in the figure above, male respondents exceed the female. This indicates that the number of male and female respondents are not proportional instead male covers the majority of the respondents. The other background information of the respondents is years of working as an auditor. The years of respondent's experience is shown in the graph below.

Figure 2: Distribution based on years of Experience



Source: SPSS survey data, 2015

As revealed in the figure above, the distribution of years of experience that the respondents had with working in the auditing profession was not fairly spread out among the categories.

Out of 38 respondents, 15 respondents (40.5% of total respondents) represent a group that covers more than ten years of experience in the industry. This shows that most of the respondent auditors were highly experienced in the auditing industry, and had well understanding and exposure in the audit and Non-audit assignments. Respondents, which have been working in the profession 1 to 5 years, were 12 (32.4% of the total respondents). The rest 10 respondents (27% of the total respondents) were having 6 to 10 years of experience.

4.2 Analysis of response rate and missing values

The initial expectations for the response rate of the questionnaire were 60-70%, since most of the auditors were working in the client's office, in fields, and attending ACCA studies, therefore, the researcher planned to reach at least 37 respondents. Based on this, the researcher distributed the questionnaire to eight audit firms of 53 auditors most of them were senior personnel, and received 38 responses, implying a response rate of 72%. Remenyi et al. (2002) suggesting that a response rate above 60% is considered exemplary.

Figure 3. Response Rate

	Frequency	Percentage
Total Response Rate	38	72%
Unreachable due to out of office	12	23%
No response	3	5%
Total Response failure	15	28%
Total	53	100

Source: SPSS survey data, 2015

4.3 Impact of Provision of NAS on audit quality

As it is pointed out on the chapter two, opponents of provision of NAS to audit client believes that it has negative effect on audit quality. However, proponents argue that it enhances the quality of the audit.

Thirteen questions were designed to collect auditor’s insights regarding effects of provision of NAS on audit quality. As depicted in the table below, the analysis of respondents’ perceptions about the relationship between the provision of NAS and audit quality.

It shows that the majority of the respondents or 88.6 % strongly agreeing or agreeing with the statement the provision of NAS to an audit client gives the auditor more experience of the client’s industry and more access to the client’s accounting system. This statement achieved the highest mean score (4.36).

Table 2. Q1.1. Provision of NAS to an audit client gives the auditor more experience of the client’s industry and more access to the client’s accounting system.

	Frequency	Percent	Valid Percent	Cumulative Percent
Disagree	1	2.6	2.8	2.8
Neutral	2	5.3	5.6	8.3
Valid Agree	16	42.1	44.4	52.8
Valid Strongly agree	17	44.7	47.2	100.0
Total	36	94.7	100.0	
Missing System	2	5.3		
Total	38	100.0		

Source: SPSS survey data, 2015

As revealed in the table below, providing NAS to an audit client by a separate engagement team gives the auditor more credibility had the highest second mean score (4.05), with (83.80%) of respondents either agreeing or strongly agreeing with it. This result might reflect the respondents’ confidence in the safeguards of auditor independence from the

segregation of duties by splitting the provision of audit and NAS into separate engagement team, which is consistent with the arguments proposed by Nadal ,(2013)and Pany and Reckers (1984).

Table 3. Q1.4. Providing NAS to an audit client by a separate engagement team gives the auditor more credibility.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	3	7.9	8.1	8.1
	Neutral	3	7.9	8.1	16.2
	Agree	20	52.6	54.1	70.3
	Strongly agree	11	28.9	29.7	100.0
	Total	37	97.4	100.0	
Missing	System	1	2.6		
Total		38	100.0		

Source: SPSS survey data, 2015

Sequentially, the third highest mean score (3.71) was achieved by the statement the existence of peer group review (inter firm) reduces impairment of audit quality, with 71.10% of respondents are either agreeing or strongly agreeing with it. This result might reflect the respondents' confidence in the safeguards of auditor independence from the peer group (inter firm) review, to curtail impairment on audit quality.

Table 4. Q1.10. Existence of Peer group review (inter firm) reduces impairment of audit quality

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	1	2.6	2.6	2.6
	Disagree	7	18.4	18.4	21.1
	Neutral	3	7.9	7.9	28.9
	Agree	18	47.4	47.4	76.3
	Strongly agree	9	23.7	23.7	100.0
	Total	38	100.0	100.0	

Source: SPSS survey data, 2015

As depicted below, the statement with the fourth highest mean score (3.68) was the provision of NAS to an audit client under the effective supervision of effective audit committee from a client side reduces impairment of audit quality, with (67.5%) of respondents either agreeing or strongly agreeing with it.

Table 5. Q1.11. Non-audit services under supervision of effective audit committee from clients side reduces impairment of audit quality

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	2	5.3	5.4	5.4
	Disagree	5	13.2	13.5	18.9
	Neutral	5	13.2	13.5	32.4
	Agree	16	42.1	43.2	75.7
	Strongly agree	9	23.7	24.3	100.0
	Total	37	97.4	100.0	
Missing	System	1	2.6		
Total		38	100.0		

Source: SPSS survey data, 2015

In contrast, as portrayed in the table below respondents (67.50%) either disagreed or strongly disagreed with the statement prohibiting the external auditor of providing NAS will make it difficult to judge the client’s internal control system and this may affect auditor’s opinion. It achieved the lowest mean score of (2.35). This indicates that auditors believes provision of NAS is not the only means to assess client’s internal control.

Table 6. Q1.9. Prohibiting the external auditor of providing NAS will make it difficult to judge the client’s internal control system and this may affect auditor’s opinion

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	8	21.1	21.6	21.6
	Disagree	17	44.7	45.9	67.6
	Neutral	3	7.9	8.1	75.7
	Agree	9	23.7	24.3	100.0
	Total	37	97.4	100.0	
Missing	System	1	2.6		
Total		38	100.0		

Source: SPSS survey data, 2015

In contrast, as portrayed in the table below the statement with the second lowest mean score (2.42) was, Auditors also try to hide their remuneration by assisting non-disclosure in clients financial statements with which more than half, 52.6% of respondents either disagreed or strongly disagreed with this statement.

Table 7. Q1.8. Auditors also try to hide their remuneration by assisting non-disclosure in clients financial statements about such remuneration

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Strongly Disagree	10	26.3	26.3	26.3
Disagree	10	26.3	26.3	52.6
Neutral	10	26.3	26.3	78.9
Agree	8	21.1	21.1	100.0
Total	38	100.0	100.0	

Source: SPSS survey data, 2015

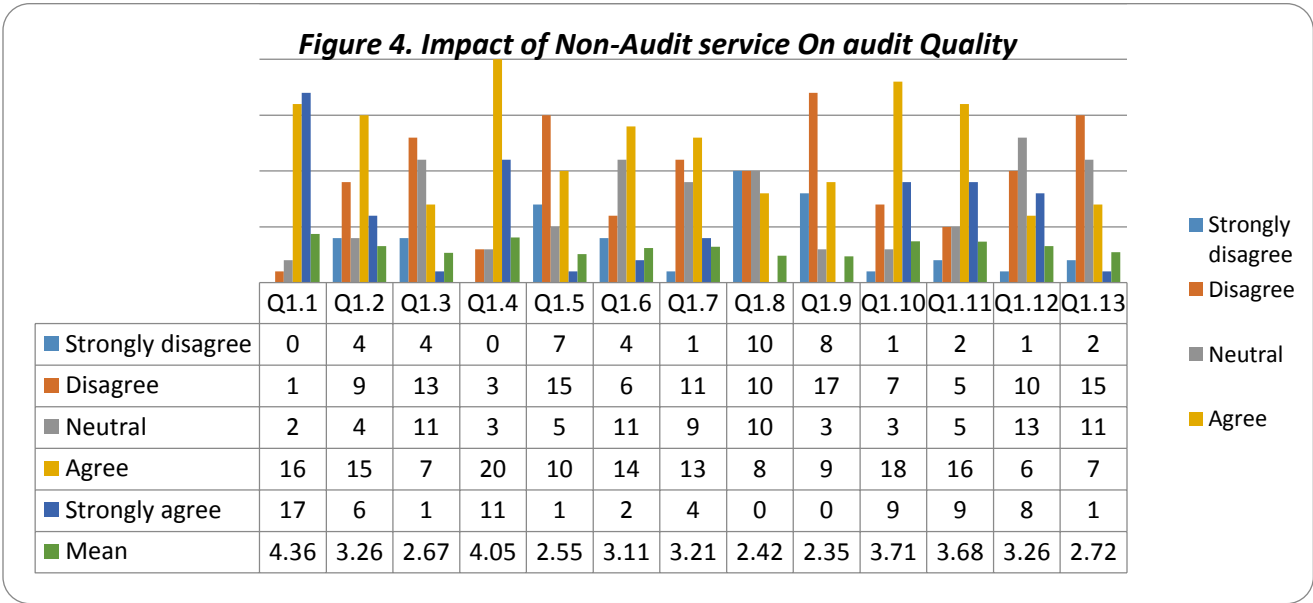
Moreover, as stated below, the statement with the third lowest mean score (2.55) was Provision of NAS to an audit client impairs audit quality regardless of type and nature of NAS with which more than half, 57.90% of respondents either disagreed or strongly disagreed with this statement.

Table 8. Q1.5. Provision of NAS to an audit client impairs audit quality regardless of type and nature of NAS

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Strongly Disagree	7	18.4	18.4	18.4
Disagree	15	39.5	39.5	57.9
Neutral	5	13.2	13.2	71.1
Agree	10	26.3	26.3	97.4
Strongly agree	1	2.6	2.6	100.0
Total	38	100.0	100.0	

Source: SPSS survey data, 2015

Since the overall responses of auditors inclined to the provision of NAS to the client enhance more knowledge and skill about the client’s industry. Therefore, the overall summary of responses revealed in the table portrayed below.



Source: SPSS Output survey data, 2015, Overall summary of provision NAS impacts on audit quality

4.4 Impact of Provision of NAS on Independency

Seven questions were designed to collect auditor’s insights regarding effects of provision of NAS to audit client on auditor independency. As depicted in the table below, the analysis of respondents perceptions about the relationship between the provision of NAS and auditor independency.

It shows that the majority of the respondents or 79.00 % strongly agreeing or agreeing with the statement existence of Separate audit and non- audit division in a firm curtails the issue of impairment of Independency. This statement achieved the highest mean score (3.92).

Table 9. Q2.7.Existence of Separate audit and non- audit division in a firm curtails the issue of impairment of Independency

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Strongly Disagree	1	2.6	2.6	2.6
Disagree	1	2.6	2.6	5.3
Neutral	6	15.8	15.8	21.1
Agree	22	57.9	57.9	78.9
Strongly agree	8	21.1	21.1	100.0
Total	38	100.0	100.0	

Source: SPSS survey data, 2015

As revealed in the table below, provision of NAS to an audit client leads to economic dependency on the client and causes conflict of interests for the auditor had the highest second mean score (3.19), with less than half (44.40%) of respondents either agreeing or strongly agreeing with it. This result might reflect the respondents' believed on the negative effect of economy or income dependency from NAS. This shows that most of the auditors refrained from taking position, and were indifferent.

Table 10. Q.2.3. Provision of NAS to an audit client leads to economic dependency on that client and causes a conflict of interests for the auditor

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	2	5.3	5.6	5.6
	Disagree	8	21.1	22.2	27.8
	Neutral	10	26.3	27.8	5.6
	Agree	13	34.2	36.1	91.7
	Strongly agree	3	7.9	8.3	100.0
	Total	36	94.7	100.0	
Missing	System	2	5.3		
Total		38	100.0		

Source: SPSS survey data, 2015

Sequentially, the third highest mean score (3.11) was achieved by the statement, Non-audit fee higher than audit fee is an indicator of threat to independence of auditor with 44.8% or less half of respondents are either agreeing or strongly agreeing with it. This result might reflect the respondents were aware of the threats might arises from higher Non-audit income.

Table 11. Q2.4. Non-audit fee higher than audit fee is an indicator of threat to independence of auditors

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	3	7.9	7.9	7.9
	Disagree	9	23.7	23.7	31.6
	Neutral	9	23.7	23.7	55.3
	Agree	15	39.5	39.5	94.7
	Strongly agree	2	5.3	5.3	100.0
	Total	38	100.0	100.0	

Source: SPSS survey data, 2015

In contrast, as portrayed in the table below prohibition of NAS to an audit client is only to maintain the perception of independency. It achieved relatively the lowest mean score of (2.87). This indicates that auditors believe provision of NAS can impair auditor indecency, unless it is backed by proper safeguarding mechanisms.

Moreover, as revealed in the table below the statement with the second lowest mean score (2.92) was, preventing the external auditors from providing NAS helps the auditor to expand the audit scope and exert more effort in the audit, and results in reduction of impairment of independency with which, 42.10% of respondents either disagreed or strongly disagreed with this statement.

Table 12. Q2.2. Preventing the external auditors from providing NAS helps the auditor to expand the audit scope and exert more effort in the audit, and results in reduction of impairment of independency

	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly Disagree	3	7.9	7.9	7.9
Disagree	13	34.2	34.2	42.1
Valid Neutral	8	21.1	21.1	63.2
Agree	12	31.6	31.6	94.7
Strongly agree	2	5.3	5.3	100.0
Total	38	100.0	100.0	

Source: SPSS survey data, 2015

As shown in the following table, the third lowest mean score (2.95) was providing NAS by the external auditor will reduce the likelihood of issuing a qualified audit report with which, less than half 43.20% of respondents either disagreed or strongly disagreed with this statement. As the mean almost close to three this shows that most of the respondents are indifferent.

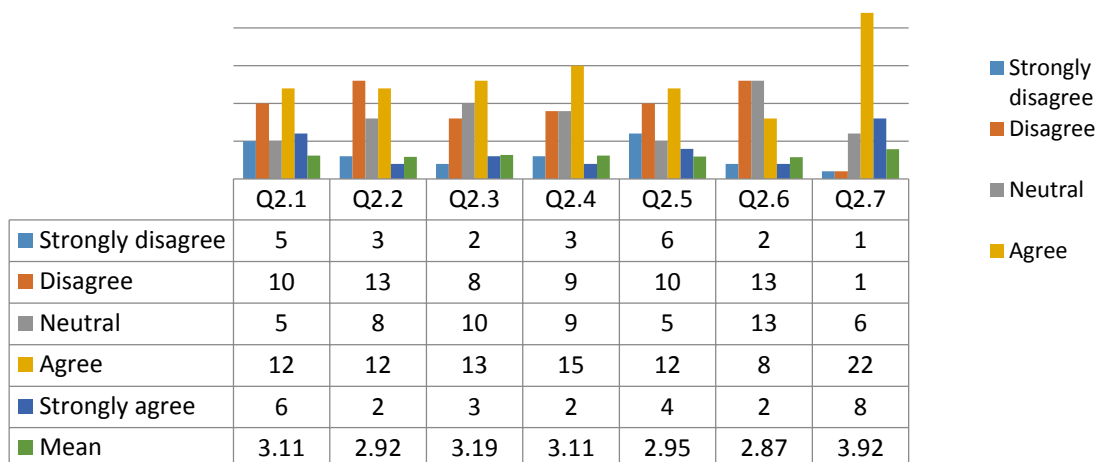
Table 13. Q2.5. Providing NAS by the external auditor will reduce the likelihood of issuing a qualified audit report

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	6	15.8	16.2	16.2
	Disagree	10	26.3	27.0	43.2
	Neutral	5	13.2	13.5	56.8
	Agree	12	31.6	32.4	89.2
	Strongly agree	4	10.5	10.8	100.0
	Total	37	97.4	100.0	
Missing	System	1	2.6		
Total		38	100.0		

Source: SPSS survey data, 2015

Since the overall responses of auditors inclined to the provision of NAS to the audit client during audit and non-audit service provided by different department. However, auditors also sensed the negative influence of higher NAS income on auditor independency. Moreover, most of the respondent auditors were indifferent to side to agree or disagree statements, and choose to be neutral; these is reflected by low agreed or disagreed rates. The overall summery of the responses revealed in the table portrayed below.

Figure 5. Impact of Non-Audit service On Independency



Source: SPSS survey data, 2015, overall summary of provision NAS impacts on audit quality

4.5 Perceived Threats as a result of dual Provision

Under this section, the research shows the survey result on the type of threat emerged during the course of provision of NAS, and the possible type of safeguards that can be set by the regulatory and/or professional bodies and safeguards that can be set on working environment at the firm and specific engagement level in order to reduced possible threat that reflected, and could be magnified in the industry related to NAS.

IESBA states that possible source of those threats that affect auditor independency and audit quality. Regarding to the safeguards, IESBA identify three possible ways of establishing safeguards that can be established by the profession and the regulatory bodies, safeguards established by the working environment at firm-wide level and at specific to engagement level, which is used to reduce impairment of audit quality and independency.

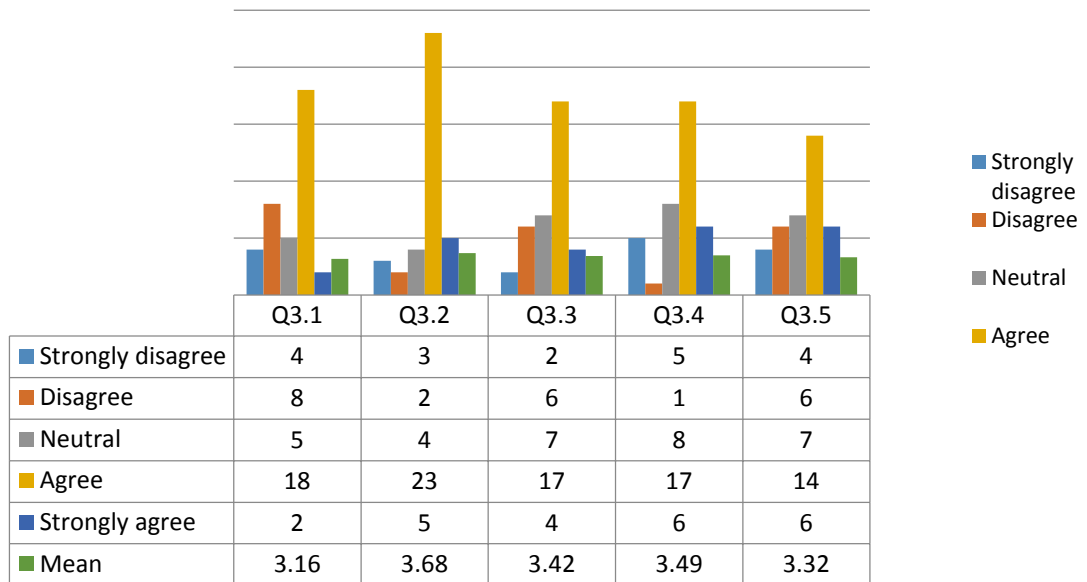
As shown in the table below, the mean value of, self-review threat, familiarity threat, self-interest threat is 3.68, 3.49, and 3.42 respectively, this indicate that most of respondent firms select “agree” and “strongly agree”, moreover, percentage figure of these there type of threats are 75.80%, 62.10% and 58.3% respectively. The figure indicates that auditors agreed this type of threats is mostly occurred during the course of provision of NAS to audit-Client. The other type of threats namely Advocacy and Intimidation threat score a mean

value of 3.16 and 3.32 respectively. Moreover, percentage figure of these types of threats for both are 54%. As compared to the above three-mentioned type threat, this two type of threat are not commonly presumed by external auditors to be existed during dual provision.

Table 14. Perceived Threats as a result of dual provision

Types of Threats	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	Mean Value for threat	Percentage of respondent above agree
Self-interest threat	2	6	7	17	4	3.42	58.3%
Self-review threat	3	2	4	23	5	3.68	75.80%
Advocacy threat	4	8	5	18	2	3.16	54.00%
Familiarity threat	5	1	8	17	6	3.49	62.10%
Intimidation threat	4	6	7	14	6	3.32	54%

Figure 6. Perceived threats as a result of dual provision



Source: SPSS survey data, 2015, overall summary of perceived threats during dual provision

4.6 Impact of NAS on Audit Fee

Nine questions were designed to collect auditor’s insights regarding effects of provision of NAS to audit client on audit fees. As depicted in the table below, the analysis of respondents perceptions about the relationship between the provision of NAS and audit fees.

It shows that the majority of the respondents or 73.7 % strongly agreeing or agreeing with the statement. Non-audit fees are in many cases higher than audit fees. This statement achieved the highest mean score (3.84).

Table 15. Q4.7.Non-audit fees are in many cases higher than audit fees

	Frequency	Percent	Valid Percent	Cumulative Percent
Disagree	5	13.2	13.2	13.2
Neutral	5	13.2	13.2	26.3
Agree	19	50.0	50.0	76.3
Strongly agree	9	23.7	23.7	100.0
Total	38	100.0	100.0	

As revealed in the table below, during provision of NAS to an audit client, clients usually have better position to disclosure audit and audit remuneration had the highest second mean score (3.57), with (56.70%) of respondents either agreeing or strongly agreeing with it.

Table 16. Q4.8. Better disclosure by client on auditor remuneration

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	1	2.6	2.7	2.7
	Disagree	2	5.3	5.4	8.1
	Neutral	13	34.2	35.1	43.2
	Agree	17	44.7	45.9	89.2
	Strongly agree	4	10.5	10.8	100.0
	Total	37	97.4	100.0	
Missing	System	1	2.6		
Total		38	100.0		

In contrast, as portrayed in the table below Providing NAS by the external auditor will lead to a reduction in audit fees. It achieved relatively the lowest mean score of (2.82). This indicates that auditors believe provision of NAS, and Non-Audit fee arises from this service does not have synergy with audit fee. This is consistent with prior literature,(Whisenant et.al., 2003).

Table 17. Q4.1. Providing NAS by the external auditor will lead to a reduction in audit fees

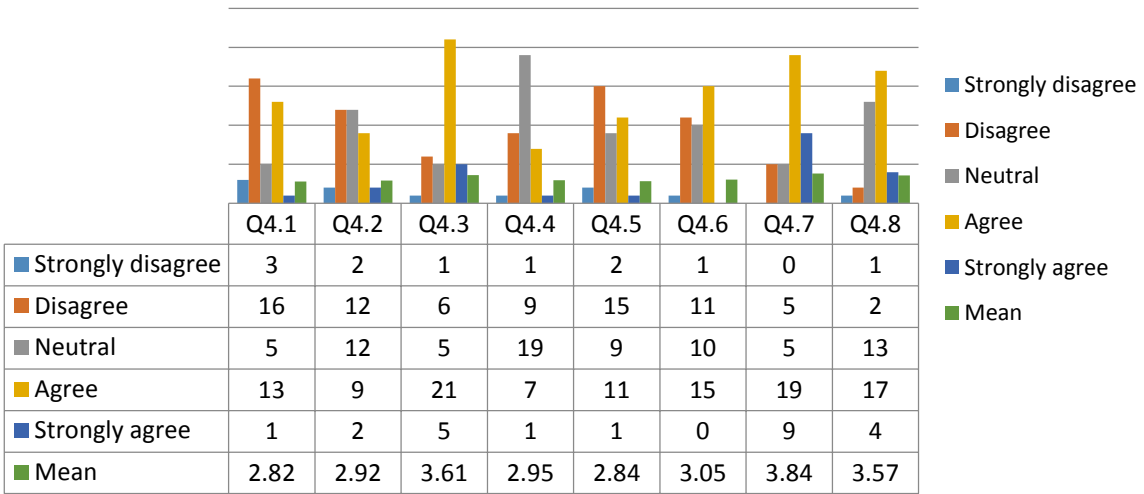
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	3	7.9	7.9	7.9
	Disagree	16	42.1	42.1	50.0
	Neutral	5	13.2	13.2	63.2
	Agree	13	34.2	34.2	97.4
	Strongly agree	1	2.6	2.6	100.0
	Total	38	100.0	100.0	

Moreover, as revealed in the table below the statement with the second lowest mean score (2.84) was, Preventing the external auditor from providing NAS will lead to the increase in the number of work hours, cost and effort necessary for performing the audit with which, 44.08% of respondents either disagreed or strongly disagreed with this statement.

Table 18. Q4.5.Preventing the external auditor from providing NAS will lead to the increase in the number of work hours, cost and effort necessary for performing the audit

	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly Disagree	2	5.3	5.3	5.3
Disagree	15	39.5	39.5	44.7
Neutral	9	23.7	23.7	68.4
Agree	11	28.9	28.9	97.4
Strongly agree	1	2.6	2.6	100.0
Total	38	100.0	100.0	

Figure 7. Impact of Non-audit service on the audit Fee



Source: SPSS survey data, S 2015, overall summary of impact of Non-audit service on the audit fee.

In general, the above results are consistent with prior literature (Nadal, 2013, Gul, 1989, and Hussey, 1999) that identifies the provision of NAS to audit clients as having the potential to increase the auditor's client knowledge, and therefore, enhance the probability that problems would be discovered. Therefore, for a given level of independence, NAS may increase audit quality. However, another commonly mentioned advantage of providing NAS to audit clients is the potential cost advantage or reduction in audit fee arising from knowledge spillovers, has not been supported by external auditors in Ethiopia. Moreover, professional also afraid of that the economic dependency that might arises from NAS which can lead impairment of audit quality and independency which is consistent with prior literature (DeAngelo 1981; Choi, et al. 2010).

4.7 Analysis of open-ended question

Section three of the questionnaire includes open-ended questions were prepared for the respondents firms. Open-ended questions are useful when the researcher want to see how respondents discuss an issue or discover what is on their minds without imposing an agenda (Lake and Harper, 1987 cited in Pitchaya et al., 2010). Moreover, open-ended questioner allows unlimited number of possible answers and unforeseen findings can be tapped, which were not captured using closed ended questions. It gives an opportunity to the respondent to answer in detail and can clarify their responses. Even though there was no a holistic overview of responses for the questionnaire from the respondents, the researcher tried to see and analyses what the majorities of the respondents agreed on the open ended questions. The researcher does not account every response due to the fact that many unique responses from the respondents.

The first open-ended question asked the respondent auditors regarding the fairness of provision of NAS to an audit client. As it is mentioned above; there was no comprehensive overview of responses for these questions. Most of the respondent agreed that, if proper safeguarding mechanisms emplace at firm and client level, it is fair to provide NAS to audit clients based on the arguments mostly mentioned like knowledge spillover, and the need to expand the audit business not only through audit but through also using NAS. On the other hand, few respondents disagreed on provision of NAS to audit client based the argument of

economic dependency, and from the firm believe _auditor should not review his own work‘ and the prevailing loose supervisory scrutiny.

The second open-ended question asked to the respondent auditor’s was the influence of provision of NAS to audit client to issue unqualified or clean report when there were irregularities. Most of respondent auditors argue that, it only affects auditor’s judgment, in the absences of proper safeguarding mechanisms, which they believe it can be curbed by placing safeguarding mechanisms. However, small numbers of respondent auditors appreciate the problem and argued that auditor could be tempted to retain a customer due to high income of NAS, and may refrain from qualifying audit reports, which have irregularities or defects, supposed to be qualified. Moreover, some auditors also argued that the nature of NAS determined for qualification or not.

The third open-ended question asked to the respondent auditors concerning the relation between the amount of audit fee and provision of NAS to an audit client, most of the respondent auditors argued that a base for setting an audit fee is drawn from different factors not directly attributed to NAS, and believe it has no relationship. However, some respondent auditors believe that most of the time NAS fee is higher than audit fee and affects audit quality negatively.

The forth open-ended question asked to the respondent auditors concerning the safeguarding mechanisms need to emplace to curtail impairment of audit quality and independency. Most of the respondents agreed, and mentioned importance of separate engagement team, department, rotation of audit partners, and inter- firm or peer group review as a way forward for problems relation to this.

The Fifth open-ended question forwarded to the respondent auditors has been the regulatory scrutiny regarding NAS. Most of respondents said that the former licensing body or regulatory organ has not established a complete set of guideline for each types of NAS service to be practice, and the required safeguarding mechanisms need to be emplaced. Moreover, most of external auditors said that OFAG has not overseen their audit and NAS closely.

However, the researcher observed that Ethiopian code of Ethics for professional accountants and auditors (OFAG, 2009, pp.33-40) clearly express the type of non-assurance services (non-audit services) allowed to provide to an audit clients, like valuation services involves no significant level of subjectivity, Provision of Taxation Service, and Provision of It system, and the code of ethics prohibited, preparing accounting records and Financial statements, valuation involves significant level of subjectivity, most of Internal Audit works , and corporate finance activities.

On the last question regarding auditor's familiarity with NAS, which results serious audit threat that cannot be minimized using formal safeguarding mechanisms, and required to be banned by the regulatory body. Most of auditors believe that none of the non-audit services are above safeguarding systems, and all should be allowed. However, some auditors argue that Accountancy, Tax advisory, and capital restructuring services, should be prohibited from providing by external auditors to an audit client.

In general, based on the responses on open ended question from the respondent firms it is possible to conclude that private audit firms have inclined to the fairness of providing NAS to audit client, and they believe and support the positive impact of provision both audit and NAS to an audit client, if a firm has a capacity to establish strong defense mechanisms, which enable audit firms to challenge or curb ethical flaws, and audit threats which might be arisen from dual provision. Moreover, most of the auditors also agreed on the importance of safeguarding mechanisms from the client side too, like promoting good corporate governance, and proper oversight by regulatory body (the incumbent AABE).

CHAPTER FIVE

Conclusions and Recommendations

The aim of this chapter is to give a general overview about the whole study and make broad conclusions drawn from the findings of the results. Finally, based on the findings the researcher put some recommendations under this chapter.

5.1 Conclusions

The objective of the study was the impact of provision of NAS on auditor independency and audit quality. Auditor's independence and audit quality was considered from the viewpoint of the external auditors, it was questioned whether provision of NAS to audit client has an impact on the auditor's independence and audit quality. In order to investigate the findings; the researcher used a sample of eight audit firms which includes a total of 53 auditors in Addis Ababa. The researcher used stratified random sampling technique and collected primary data through questionnaire, and also tried to see secondary data's like the new proclamation of the formation of AABE. The responses collected were analyzed using a quantitative and qualitative approach with the help of SPSS. Having this, the researcher analyzed the perceptions of external auditors based on how provision of NAS affects auditor's independence and audit quality using different parameters for each elements of the research title (independency and audit quality).

Moreover, the researcher analyzed impacts of NAS on audit fee, and perceived threats (i.e. self-interest threat, self-review threats, advocacy threats, familiarity threats and intimidation threats) that can be immersed in the normal audit undertakings and might be escalated during provision of NAS.

According to the view of most of the respondent external auditors, the results suggested that provision of NAS does not negatively affects auditor independency and audit quality, if a firm and client emplaced proper safeguarding mechanisms like undertakings audit and NAS by separate engagement team, separate departments, rotation of audit partners, and peer(inter-firm) review. Moreover, an external auditor acknowledge the knowledge- spillover drives from NAS and has positive impact on audit quality, and believe it helps to underpin their understanding regarding the client's industry. However, most of the respondent

auditors agreed on the influence of higher income from NAS on auditor's independency and audit quality, in the absence of properly implemented safeguarding mechanisms from the firm and client side, and loose regulatory scrutiny.

Self-review, familiarity, and self-interest threats are presumed to be escalated in course of provision of NAS to an audit client by respondent private external auditors, and it could be reduced to the acceptable level by properly emplacing safeguarding mechanisms mentioned above.

Furthermore, auditors argue that non audit fee does not has impact on the audit fee, and non-audit fee is usually higher than audit fee this might negatively impacted auditor's independency and audit quality.

5.2 Recommendations

The area under this study is an important subject not only to the auditors themselves but also other users of audit reports, and the wider public. Regarding to this, in the introductory chapter the researcher argued that from a practical perspective, the auditor independence is the cornerstone for many stakeholders who have strong stake on the credibility of audit reports. As individual auditor's reputation increases, which may also result to an increase in the reputation of the general profession. Since provision of NAS to audit clients is highly debatable and a delicate subject in the global era, the study recommends the following points to be addressed in Ethiopian context.

First, auditors should take maximum professional due care and diligence during commissioning their professional duty in general, and in NAS in particular in order to eliminate or reduce the audit threats to acceptable level.

Secondly, putting emplaces proper safeguarding mechanism at firm and clients level is crucial to curb or reduce audit threats to acceptable level which arises from dual provision. The result from the study indicates that most of the auditors believe former licensing body, OFAG, did not establish a complete set of guidelines for each type of NAS, allowed or prohibited; size, structure, and capacity of audit firms which are eligible to undertake this activity, and the required specific safeguarding mechanisms for each types of NAS need to

be emplaced. However, the researcher observed that OFAG has a complete set of guide line on professional code of ethics for the type of NAS allowed, and/or prohibited, and specific safeguarding mechanisms designed for each types of NAS, nevertheless, externals auditors are not familiar to the professional code of ethics related to NAS. Moreover, OFAG failed to properly scrutinize how audit and NAS have been handling by external auditors so far. Therefore, the incumbent AABE should hastily fix the aforementioned gap of the OFAG in this regard, and should continuously provide awareness creation trainings about the professional ethics, which need to be complied by external auditors.

Thirdly, according to World Bank, (2007) review, the Auditing, Accountancy, Management Consultancy Services related to the Accounting, and Auditing profession formerly directed and overseen by different organs, since duplications of mandates by different licensing and regulatory bodies exacerbates the problem in connection with audit and non-audit service quality decline in general. Therefore, consultancy activities related to accounting and finance, and audit service should have to be guided by single regulatory organ.

Moreover, the respondent auditors suggested that the new board should promote good corporate governance elements specifically related to NAS, like the presence of effective audit committee in big companies, who would supposed to closely review the work of external auditors. In addition, other jurisdictions which allows NAS to audit client mostly compelled clients to properly disclose the nature, and amount of NAS fees (one dimension of safeguarding mechanism from a client side).Therefore, the new board should revisit the existing guidelines of the OFAG code of ethics and should up-graded in light of the best practices.

Finally, establishing a country-level quality assurance program is an international best practice. A quality assurance program checks the auditors work at both partner and firm level, and ensures that auditors conduct their duties with outmost professional diligence. Accordingly, the government mandated the incumbent board to set quality assurance mechanisms, review the quality and integrity of audit reports, and competency of auditors to ensure that audit firms have effective quality control arrangements, which helps to enhance audit quality and independency Therefore, the board should swiftly enact on issues related to NAS. Since it is imperative to the audit industry in general, and to NAS in particular.

Generally, the study examined NAS broadly and from the insight of the practitioner auditors only, and as there is a possibility that specific NAS may have different effects upon auditor independence. Therefore, the researcher recommends future research could carry out or focused on different types of NAS, amount or ratio of audit to non-audit fee and its implication on independency and quality, and perception or reaction of investors to invest in companies, which are audited by auditors who provided both audit and NAS to an audit client.

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Appendix1: Survey Questionnaire

Addis Ababa University
College of Business and Economics
Department of Accounting and Finance

Dear respondents

My name is Ejigsew Assaye. I am attending MSC in Accounting Program at Addis Ababa University. Right now I am conducting a research on the title **“The Impact of provision of Non-audit Service to an audit client on auditors independency and quality from the perspective of External private audit firms located in Addis Ababa”**, Non-audit service referring Taxation, Internal Audit, Consultancy, and Accountancy services.

The aim of this questionnaire is to collect relevant data that will be used in conducting a study on the topic **“The impact of provision of non-audit service on audit quality and independency from the perspective of External private audit firms located in Addis Ababa”** as a partial fulfillment of the requirements for the Masters of Accounting and Finance Addis Ababa University College of Business and Economics.

Accordingly, this questionnaire is designed to collect data on the view that you have towards the impacts of provision of non-audit service for audit clients on independence and audit quality.

Please provide some background information about yourself by ticking the most appropriate box in each of the following questions, your name is not important to mention in the questionnaire.

Through your participation, I hope to understand your insight related with the impact of provision of non-audit service to audit client on auditor’s independence and audit quality.

Finally, your response to this questionnaire will serve, as source of information to the research paper to be used for thesis purpose. Any response you provide here is strictly confidential and will be used exclusively for the research purpose. Your honesty in responding the right answer is vital for the research outcome to be reliable.

Thank you for your kind cooperation in advance!

1. Your gender? Male Female
2. How many years of experience do you have as an auditor?
 - 1-5 years
 - 6-10 years
 - >10 years

Section Two. Closed Ended Questions regarding Provision of non-audit service to audit client

Below are lists of questioners relating to the above subject. Please indicate whether you agree or disagree with each statement by ticking (√) on the spaces that specify your choice from the options that range from “strongly agree” to “strongly disagree”.

Key

SA=Strongly agree N= Neutral SD= Strongly Disagree
 A=Agree D= Disagree NAS=Non-audit Service

S.No	1) Impact of Non-Audit service On audit Quality	SA	A	N	D	S D
1.1	Provision of NAS to an audit client gives the auditor more experience of the client’s industry and more access to the client’s accounting system.					
1.2	Provision of certain types of NAS only impairs audit quality.					
1.3	Preventing the external auditor from providing NAS will lead big audit firms to pullout from the audit market; hence small audit firms would engage widely in the audit market and affect the audit Quality negatively.					
1.4	Providing NAS to an audit client by a separate engagement team gives the auditor more credibility.					
1.5	Provision of NAS to an audit client impairs audit quality regardless of type and nature of NAS.					
1.6	Provision of NAS to an audit client reduces the probability of a threat to switch auditor.					
1.7	No Providing NAS by an external auditor will motivate a firm to assign a team with high qualifications to perform the audit tasks to this client.					

1.8	Auditors also try to hide their remuneration by assisting non-disclosure in clients financial statements about such remuneration					
1.9	Prohibiting the external auditor of providing NAS will make it difficult to judge the client's internal control system and this may affect auditor's opinion					
1.10	Existence of Peer group review (inter firm) reduces impairment of audit quality					
1.11	Non-audit services under supervision of effective audit committee from clients side reduces impairment of audit quality					
1.12	Provision NAS by Specialized non-audit firms reduces impairment of audit quality					
1.13	Preventing the external auditor from providing NAS will lead to the failure to be fully acquainted with the audit client's activity and consequently less able to specialize in the client's activity.					

S,NO	2.Impact of Non-Audit service On Independency	S A	A	N	D	S D
2.1	Provision of NAS services by auditor affects auditor independency					
2.2	Preventing the external auditors from providing NAS helps the auditor to expand the audit scope and exert more effort in the audit, and results in reduction of impairment of independency.					
2.3	Provision of NAS to an audit client leads to economic dependency on that client and causes a conflict of interests for the auditor.					
2.4	Non-audit fee higher than audit fee is an indicator of threat to independence of auditors.					
2.5	Providing NAS by the external auditor will reduce the likelihood of issuing a qualified audit report.					
2.6	Prohibition of NAS to an audit client is only to maintain the perception of independency.					
2.7	Existence of Separate audit and non- audit division in a firm curtails the issue of impairment of Independency.					

S.NO	3 3.Perceived threats as a result of dual provision	SA	A	N	D	SD
3.1	Advocacy Threat: The auditor is asked to promote the client's position or represent them.					
3.2	Self-review threat: Auditor has to re-evaluate work performed by himself					
3.3	Self- interest threat: financial or other interests of members or their close family					
3.4	Familiarity threat: Auditor is too sympathetic or trusting of the client because of a close relationship with them					
3.5	Intimidation Threat: intimidates the auditor to give an unqualified opinion otherwise not re-appoint him.					

S.NO	4. Impact of Non-audit service on the audit Fee	SA	A	N	D	S D
4.1	Providing NAS by the external auditor will lead to a reduction in audit fees					
4.2	Preventing the external auditor from NAS will lead to demotivate new entrant auditors to the market, and results in decrease in the number of auditors who provide audit services and; hence will lead to higher audit fees					
4.3	NAS yields greater income in comparison with audit services					
4.4	Prohibiting provision of NAS by the external auditor will lead to the absence of any allowed discount for providing more than one service at a time.					
4.5	Preventing the external auditor from providing NAS will lead to the increase in the number of work hours, cost and effort necessary for performing the audit.					
4.6	Client companies do not properly disclose information about audit and non-audit fees.					
4.7	Non-audit fees are in many cases higher than audit fees					
4.8	Audit Clients properly discloses auditor remuneration					

Section 3: Open ended questions

1. What is your position in fairness of provision of non-audit service to an audit client?

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2. As an auditor what is your insight about the influence of provision of non- audit service to an audit client to issue unqualified opinion, when there were irregularities?

3. How do you see the relationship (i.e its direction) between the amount of audit and non-audit service fee and provision of both audit and non-audit service to a client?

4. What is your insight about type of safeguarding mechanisms could be emplaced by an audit firm which helps to curtail impairment of audit quality and independency?

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5. What is your insight about the regulatory scurtiny on provsion of non-aduit service to audit client? Do you believe OFAG established complete set of guideline for different types of non-audit services to be provided, and the requaired safeguarding mechanisms needs to be implaced for each types of services?.....

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6 .Is any kind of non-audit service you are familiar so far that can create a threat which cannot be minimized using safeguarding mechanisms and need to be banned?

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Survey Data

Frequency Data

Gender

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Male	30	78.9	85.7	85.7
Valid Female	5	13.2	14.3	100.0
Valid Total	35	92.1	100.0	
Missing System	3	7.9		
Total	38	100.0		

Experience

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid 1-5 years	12	31.6	32.4	32.4
Valid 6-10 years	10	26.3	27.0	59.5
Valid >10 years	15	39.5	40.5	100.0
Valid Total	37	97.4	100.0	
Missing System	1	2.6		
Total	38	100.0		

Q1.1_ Provision of NAS to an audit client gives the auditor more experience of the client's industry and more access to the client's accounting system

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Disagree	1	2.6	2.8	2.8
Valid Neutral	2	5.3	5.6	8.3
Valid Agree	16	42.1	44.4	52.8
Valid Strongly agree	17	44.7	47.2	100.0
Valid Total	36	94.7	100.0	
Missing System	2	5.3		
Total	38	100.0		

Q1.2 Provision of certain types of NAS impair audit quality

	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly Disagree	4	10.5	10.5	10.5
Disagree	9	23.7	23.7	34.2
Valid Neutral	4	10.5	10.5	44.7
Agree	15	39.5	39.5	84.2
Strongly agree	6	15.8	15.8	100.0
Total	38	100.0	100.0	

Q1.3_ Preventing the external auditor from providing NAS will lead big audit firms to dismiss the audit market; hence small audit firms would engage widely in the audit market and affect the audit Quality negatively

	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly Disagree	4	10.5	11.1	11.1
Disagree	13	34.2	36.1	47.2
Valid Neutral	11	28.9	30.6	77.8
Agree	7	18.4	19.4	97.2
Strongly agree	1	2.6	2.8	100.0
Total	36	94.7	100.0	
Missing System	2	5.3		
Total	38	100.0		

Q1.4_ Providing NAS to an audit client by a separate engagement team gives the auditor more credibility

	Frequency	Percent	Valid Percent	Cumulative Percent
Disagree	3	7.9	8.1	8.1
Neutral	3	7.9	8.1	16.2
Valid Agree	20	52.6	54.1	70.3
Strongly agree	11	28.9	29.7	100.0
Total	37	97.4	100.0	
Missing System	1	2.6		
Total	38	100.0		

Q1.5_ Provision of NAS to an audit client impairs audit quality regardless of type and nature of NAS

	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly Disagree	7	18.4	18.4	18.4
Disagree	15	39.5	39.5	57.9
Valid Neutral	5	13.2	13.2	71.1
Agree	10	26.3	26.3	97.4
Strongly agree	1	2.6	2.6	100.0
Total	38	100.0	100.0	

Q1.6_ Provision of NAS to an audit client reduces the probability of a threat to switch auditor

	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly Disagree	4	10.5	10.8	10.8
Disagree	6	15.8	16.2	27.0
Valid Neutral	11	28.9	29.7	56.8
Agree	14	36.8	37.8	94.6
Strongly agree	2	5.3	5.4	100.0
Total	37	97.4	100.0	
Missing System	1	2.6		
Total	38	100.0		

Q1.7_ Providing NAS by the external auditor will motivate him to assign a team with high qualifications to perform the audit tasks to this client

	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly Disagree	1	2.6	2.6	2.6
Disagree	11	28.9	28.9	31.6
Valid Neutral	9	23.7	23.7	55.3
Agree	13	34.2	34.2	89.5
Strongly agree	4	10.5	10.5	100.0
Total	38	100.0	100.0	

Q1.8_ Auditors also try to hide their remuneration by assisting non-disclosure in clients financial statements about such remuneration

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Strongly Disagree	10	26.3	26.3	26.3
Valid Disagree	10	26.3	26.3	52.6
Valid Neutral	10	26.3	26.3	78.9
Valid Agree	8	21.1	21.1	100.0
Valid Total	38	100.0	100.0	

1.9_ Prohibiting the external auditor of providing NAS will make it difficult to judge the client's internal control system and this may affect auditor's opinion

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Strongly Disagree	8	21.1	21.6	21.6
Valid Disagree	17	44.7	45.9	67.6
Valid Neutral	3	7.9	8.1	75.7
Valid Agree	9	23.7	24.3	100.0
Valid Total	37	97.4	100.0	
Missing System	1	2.6		
Total	38	100.0		

Q1.10_ Existence of Peer group review (inter firm) reduces impairment of audit quality

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Strongly Disagree	1	2.6	2.6	2.6
Valid Disagree	7	18.4	18.4	21.1
Valid Neutral	3	7.9	7.9	28.9
Valid Agree	18	47.4	47.4	76.3
Valid Strongly agree	9	23.7	23.7	100.0
Valid Total	38	100.0	100.0	

1.11_ Non-audit services under supervision of effective audit committee from clients side reduces impairment of audit quality

	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly Disagree	2	5.3	5.4	5.4
Disagree	5	13.2	13.5	18.9
Valid Neutral	5	13.2	13.5	32.4
Agree	16	42.1	43.2	75.7
Strongly agree	9	23.7	24.3	100.0
Total	37	97.4	100.0	
Missing System	1	2.6		
Total	38	100.0		

Q1.12_ Provision NAS by Specialized non-audit firms reduces impairment of audit quality

	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly Disagree	1	2.6	2.6	2.6
Disagree	10	26.3	26.3	28.9
Valid Neutral	13	34.2	34.2	63.2
Agree	6	15.8	15.8	78.9
Strongly agree	8	21.1	21.1	100.0
Total	38	100.0	100.0	

Q1.13_ Preventing the external auditor from providing NAS will lead to the failure to be fully acquainted with the audit client's activity and consequently less able to specialize in the client's activity

	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly Disagree	2	5.3	5.6	5.6
Disagree	15	39.5	41.7	47.2
Valid Neutral	11	28.9	30.6	77.8
Agree	7	18.4	19.4	97.2
Strongly agree	1	2.6	2.8	100.0
Total	36	94.7	100.0	
Missing System	2	5.3		
Total	38	100.0		

Q2.1 Provision of NAS services by auditor affects auditor independency

	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly Disagree	5	13.2	13.2	13.2
Disagree	10	26.3	26.3	39.5
Valid Neutral	5	13.2	13.2	52.6
Agree	12	31.6	31.6	84.2
Strongly agree	6	15.8	15.8	100.0
Total	38	100.0	100.0	

Q2.2_ Preventing the external auditors from providing NAS helps the auditor to expand the audit scope and exert more effort in the audit, and results in reduction of impairment of independency

	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly Disagree	3	7.9	7.9	7.9
Disagree	13	34.2	34.2	42.1
Valid Neutral	8	21.1	21.1	63.2
Agree	12	31.6	31.6	94.7
Strongly agree	2	5.3	5.3	100.0
Total	38	100.0	100.0	

Q2.3_ Provision of NAS to an audit client leads to economic dependency on that client and causes a conflict of interests for the auditor

	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly Disagree	2	5.3	5.6	5.6
Disagree	8	21.1	22.2	27.8
Valid Neutral	10	26.3	27.8	55.6
Agree	13	34.2	36.1	91.7
Strongly agree	3	7.9	8.3	100.0
Total	36	94.7	100.0	
Missing System	2	5.3		
Total	38	100.0		

Q2.4_ Non-audit fee higher than audit fee is an indicator of threat to independence of auditors

	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly Disagree	3	7.9	7.9	7.9
Disagree	9	23.7	23.7	31.6
Valid Neutral	9	23.7	23.7	55.3
Agree	15	39.5	39.5	94.7
Strongly agree	2	5.3	5.3	100.0
Total	38	100.0	100.0	

Q2.5 Providing NAS by the external auditor will reduce the likelihood of issuing a qualified audit report

	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly Disagree	6	15.8	16.2	16.2
Disagree	10	26.3	27.0	43.2
Valid Neutral	5	13.2	13.5	56.8
Agree	12	31.6	32.4	89.2
Strongly agree	4	10.5	10.8	100.0
Total	37	97.4	100.0	
Missing System	1	2.6		
Total	38	100.0		

Q2.6_ Prohibition of NAS to an audit client is only to maintain the perception of independency.

	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly Disagree	2	5.3	5.3	5.3
Disagree	13	34.2	34.2	39.5
Valid Neutral	13	34.2	34.2	73.7
Agree	8	21.1	21.1	94.7
Strongly agree	2	5.3	5.3	100.0
Total	38	100.0	100.0	

Q2.7_ Existence of Separate audit and non- audit division in a firm curtails the issue of impairment of Independency

	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly Disagree	1	2.6	2.6	2.6
Disagree	1	2.6	2.6	5.3
Valid Neutral	6	15.8	15.8	21.1
Agree	22	57.9	57.9	78.9
Strongly agree	8	21.1	21.1	100.0
Total	38	100.0	100.0	

Q3.1_ Advocacy Threat: The auditor is asked to promote the client's position or represent them

	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly Disagree	4	10.5	10.8	10.8
Disagree	8	21.1	21.6	32.4
Valid Neutral	5	13.2	13.5	45.9
Agree	18	47.4	48.6	94.6
Strongly agree	2	5.3	5.4	100.0
Total	37	97.4	100.0	
Missing System	1	2.6		
Total	38	100.0		

Q3.2 Self-review threat: Auditor has to re-evaluate work performed by himself

	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly Disagree	3	7.9	8.1	8.1
Disagree	2	5.3	5.4	13.5
Valid Neutral	4	10.5	10.8	24.3
Agree	23	60.5	62.2	86.5
Strongly agree	5	13.2	13.5	100.0
Total	37	97.4	100.0	
Missing System	1	2.6		
Total	38	100.0		

Q3.3_ Self- interest threat: financial or other interests of members or their close family

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Strongly Disagree	2	5.3	5.6	5.6
Valid Disagree	6	15.8	16.7	22.2
Valid Neutral	7	18.4	19.4	41.7
Valid Agree	17	44.7	47.2	88.9
Valid Strongly agree	4	10.5	11.1	100.0
Total	36	94.7	100.0	
Missing System	2	5.3		
Total	38	100.0		

Q3.4_ Familiarity threat: Auditor is too sympathetic or trusting of the client because of a close relationship with them

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Strongly Disagree	5	13.2	13.5	13.5
Valid Disagree	1	2.6	2.7	16.2
Valid Neutral	8	21.1	21.6	37.8
Valid Agree	17	44.7	45.9	83.8
Valid Strongly agree	6	15.8	16.2	100.0
Total	37	97.4	100.0	
Missing System	1	2.6		
Total	38	100.0		

Q3.5_ Intimidation Threat: intimidates the auditor to give an unqualified opinion otherwise not re-appoint him

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Strongly Disagree	4	10.5	10.8	10.8
Valid Disagree	6	15.8	16.2	27.0
Valid Neutral	7	18.4	18.9	45.9
Valid Agree	14	36.8	37.8	83.8
Valid Strongly agree	6	15.8	16.2	100.0
Total	37	97.4	100.0	
Missing System	1	2.6		
Total	38	100.0		

Q4.1 Providing NAS by the external auditor will lead to a reduction in audit fees

	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly Disagree	3	7.9	7.9	7.9
Disagree	16	42.1	42.1	50.0
Valid Neutral	5	13.2	13.2	63.2
Agree	13	34.2	34.2	97.4
Strongly agree	1	2.6	2.6	100.0
Total	38	100.0	100.0	

Q4.2 Preventing the external auditor from NAS will lead to demotivate new entrant auditors to the market, and results in decrease in the number of auditors who provide audit services and; hence will lead to higher audit fees

	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly Disagree	2	5.3	5.4	5.4
Disagree	12	31.6	32.4	37.8
Valid Neutral	12	31.6	32.4	70.3
Agree	9	23.7	24.3	94.6
Strongly agree	2	5.3	5.4	100.0
Total	37	97.4	100.0	
Missing System	1	2.6		
Total	38	100.0		

Q4.3 NAS yields greater income in comparison with audit services

	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly Disagree	1	2.6	2.6	2.6
Disagree	6	15.8	15.8	18.4
Valid Neutral	5	13.2	13.2	31.6
Agree	21	55.3	55.3	86.8
Strongly agree	5	13.2	13.2	100.0
Total	38	100.0	100.0	

Q4.4_ Prohibiting providing NAS by the external auditor will lead to the absence of any allowed discount for providing more than one service at a time

	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly Disagree	1	2.6	2.7	2.7
Disagree	9	23.7	24.3	27.0
Valid Neutral	19	50.0	51.4	78.4
Agree	7	18.4	18.9	97.3
Strongly agree	1	2.6	2.7	100.0
Total	37	97.4	100.0	
Missing System	1	2.6		
Total	38	100.0		

Q4.5_ Preventing the external auditor from providing NAS will lead to the increase in the number of work hours, cost and effort necessary for performing the audit

	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly Disagree	2	5.3	5.3	5.3
Disagree	15	39.5	39.5	44.7
Valid Neutral	9	23.7	23.7	68.4
Agree	11	28.9	28.9	97.4
Strongly agree	1	2.6	2.6	100.0
Total	38	100.0	100.0	

Q4.6_ Client companies do not properly disclose information about audit and non-audit fees

	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly Disagree	1	2.6	2.7	2.7
Disagree	11	28.9	29.7	32.4
Valid Neutral	10	26.3	27.0	59.5
Agree	15	39.5	40.5	100.0
Total	37	97.4	100.0	
Missing System	1	2.6		
Total	38	100.0		

Q4.7_ Non-audit fees are in many cases higher than audit fees

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Disagree	5	13.2	13.2	13.2
Neutral	5	13.2	13.2	26.3
Agree	19	50.0	50.0	76.3
Strongly agree	9	23.7	23.7	100.0
Total	38	100.0	100.0	

Q4.8 Better disclosure by client on auditor remuneration

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Strongly Disagree	1	2.6	2.7	2.7
Disagree	2	5.3	5.4	8.1
Neutral	13	34.2	35.1	43.2
Agree	17	44.7	45.9	89.2
Strongly agree	4	10.5	10.8	100.0
Total	37	97.4	100.0	
Missing System	1	2.6		
Total	38	100.0		