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DETERMINANTS OF EXTERNAL AUDIT QUALITY
AN EMPIRICAL STUDY ON PRIVATE AUDIT FIRMS IN
ETHIOPIA

BY:

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Statement of Declaration

I, *Gebre Ayinadis* declare that this thesis entitled: “Determinants of audit quality in private audit firms of Ethiopia” and submitted in partial fulfillment of the requirements the award of Master Degree in Accounting and Finance is result of my own effort and that all sources of materials used for the study have been duly acknowledged. This thesis is done independently with the guidance and recommendation of my thesis Advisor. The study also fulfils the university regulations and standards with respect to its originality and quality.

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Statement of Certification

This is to declare that the thesis prepared by Gebre Ayinadis, entitled “Determinants of external audit quality in private audit firms of Ethiopia” and submitted in partial fulfillment of the requirements the award of Master Degree in Accounting and Finance complies with the regulations of the University and meets the accepted standards with respect to originality and quality.

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Acronyms

INTOSAI	International organization of Supreme Audit Institutions
ACCA	Associations of chartered certified Accountants
COSO	Committee of Sponsoring Organizations of the Tread way Commission
DACR	Discretionary Accrual
TACR	Total Accrual
DW	Durbin-Watson
U.S	United States
NDACR	Non-Discretionary Accrual
AABE	Accounting and Auditing Board of Ethiopia
OLS	Ordinary least square
BJ	Bera Jerque
VIF	Variance inflated factor
CLRM	Classical linear regression model
CPA	Certified Public Accountants
ANOVA	Analysis of Variance
ISA	International standards of Auditing
SPSS	Statistical Package for Social Sciences
Log	Natural Logarithm

Abstract

There are numerous studies made on the determinants of audit quality, but their findings and conclusions are inconsistency or inconclusive implying the need for further research in the same area. Besides, internal control of auditee and number of staffs assigned in an audit engagement are under-researched determinants of audit quality. This study, thus, analyzed the determinant of audit quality in private audit firms of Ethiopia taking audit tenure, audit fee, internal control of auditee, accountability of external auditors, and number of staff assignment in an audit engagements as determinants of audit quality. The study adopted a quantitative research approach to test its working hypothesis. The target population of the study were 122 licensed and registered private audit firms in Addis Ababa. Primary data were collected from the 55 sampled private audit firms of Ethiopia through questionnaire and structured interviews. Data from structured interviews were obtained from the principals/Partners of audit firms. Secondary data were also collected from the financial reports of auditees of the sampled audit firms to measure audit quality using discretionary (abnormal) accrual of management earnings as a proxy. The collected data were analyzed by using SPSS Statistics version 25, Linear multiple regression analysis, and descriptive statistics. The results of linear multiple regression analysis showed that audit tenure, internal control of auditees, and number of staffs assignment per audit engagements have positive and statically significance impacts on audit quality of private audit firms of Ethiopia. While, audit fee and accountability of external auditors have statistically insignificance impacts on audit quality of private audit firms of Ethiopia. Accordingly, recommendations to private audit firms, auditees and their shareholders and suggestions for future research are provided.

Keywords: *audit quality, audit tenure, audit fee, internal control of auditee's, accountability of external auditors, and number of staff's assignment in audit engagements.*

CHAPTER ONE

1. Introduction

1.1 Background of the Study

Audit quality is defined as the likelihood of external auditor's competency of discovering errors, frauds and material misstatements of financial statements obtained from accounting information system and report to the users of financial statements (ISA 220). High audit quality is characterized by providing of a factual and credible financial information to its users.

There are different views about the definitions of audit quality. The most accepted definition is the one provided by DeAngelo (1981, P.186). She defines audit quality as: "The market-assessed joint probability that a given auditor will both detect material misstatements in the client's financial statements and report the material misstatements". In this idea, the definition means that audit quality is a function of the auditor's technical ability to detect material misstatements and report the misstatements based on the objectivity of independence. DeAngelo (1981) added that the probability of discovering the material misstatements on the financial reports also depends on the technological capabilities of the auditor and the identified audit procedures to detect the material misstatements. Palmrose (1988) defines audit quality as: "the level of assurances- the probability that financial statements contain no material omissions or misstatements". She argues by a higher quality of audit services related with higher level of assurance. Another looking on audit quality is focuses on compliance with the auditing standard and professional ethics (Beckmerhagen et al., 2004) and states that audit quality is achieved when external auditors are performing their audit works based on the international standards of Auditing (ISA) and provides a reasonable assurance on the issued financial statements.

Following the scandals of Xerox, Enron debacle, WorldCom and Andersen collapse a high attention is given to the importance of audit quality by audit clients and external users of financial statements (Cullinan, 2004). The custody of audit quality is for both

audit clients and external users of financial statements. The significance of audit quality to audit clients are mitigates the conflict of interests between managements and shareholder, detection of significant risks, detection on internal control weakness and recommends to the management to give attentions on time. On the other hand, for external users of financial statements audit quality increases investors' confidence, increases the credibility and reliability of financial statements, reduces the risk of information asymmetry by empirically confirming the validity of financial statements, increases the efficiency of capital markets by optimize resource allocation. Finally, a factual audit report is needed by users of financial information such as shareholders, management, creditors, potential investors and creditors, labor organizations, and tax office.

There are studies that has been done on the determinants of audit quality. Francis and Simon (1987) has studied the relationship exists between audit quality and audit fee. According to Francis and Simon, in a competitive market high audit fee is an indication of audit quality. Larcker and Richardson (2004) states that a high audit fee payment to auditors enhance to external auditors to maintain audit quality. To the contrary a negative relationship has found between audit quality and audit fee. Audit quality is impaired when auditors are paid a high audit fee beyond their expectations (Hoitash et al., 2007). Lin and Hwang (2010), suggests there is a negative relationship between audit quality and audit fee with that of the high (abnormal) audit fee payment to auditors impairs their independence and becomes economically dependent on the client. Deis and Giroux (1992), also found a negative relationship between audit quality and audit tenure and argument by mandatory auditor rotation. Meanwhile Chaney, Jeter and Shivakumar (2009), states that there is no significant relationship between audit fee and audit quality. Other studies were made regarding to the relationship between audit quality and audit tenure. According to the studies made by Chi, Haung, Liao and Xie (2009), Palmrose (1987), Stice (1991), Carcello and Nagy (2004), Meyers et al. (2003), Johnson et al. (2002) a positive relationship between an extended audit tenure and audit quality. On the other hand, Carey and Simnett (2006), Dopuch et al. (2001), Knapp (1991), Daniels and Booker (2009), Blouin et al. (2005), Davis et al. (2009), Levitt (1998), suggested a negative relationship between an extended audit tenure and audit quality. In addition to

the above determinants, auditor's accountability is also a determinant of audit quality. Accountability is defined as auditor's social liability, motivation, and dedication with respect to the audit of financial statements and an overview of the planned audit scope, the timing of the planned audit and the opinion of the audit results. Narayan (1994), Acemoglu and Geitzman (1997), Mluma and Thoman (1990), Taylor and Simon (2001), Dye (1993), Free (1999) has found a positive relationship between auditor's accountability and audit quality.

According to Healy and Palepu (2001), research that discovers the role of auditors in a developing market is not largely explored. According to World Bank Report (2007), in Ethiopia audit quality has been questioned strongly due to the absence of strong quality review of auditors' work. In addition, studies on determinants of audit quality have missed such important factors as internal control of auditee and number of audit staffs assigned per engagement as determinants of audit quality. Besides, findings of prior empirical studies on impacts of audit fee, and audit firm tenure on audit quality are inconclusive. As discussed above studies found positive association, the others found negative association, while some other found no relationship.

Therefore, the purpose of this study is to investigate the determinants of audit quality considering internal control of audit client and number of staffs assigned per engagement of external audit service of private audit firms. It was done based on guide to audit quality which investigate the quality of external audit in terms of audit fee, size of staff assigned per engagement, internal control system of audit clients, independence and longevity in tenure and accountability of external audit firms.

1.2 Statement of the problem

The quality of audit depends on auditor's independence in appearance and fact, auditor's competence and qualification, internal control of the client audited, accountability of the audit firm, audit fee, audit tenure and number of staffs assigned per engagement (ISA 220). However, several factors like profit motive of audit firms, lack of accountability, independency threat due to long tenure with client, threat of replacement of an auditor, lack of dedication to their profession and responsibility impair audit quality. Therefore, longevity of audit firm tenure, profit motive of the audit firm, lack of accountability,

weak internal control and lack of dedication to the profession and responsibility impairs the quality of external audit works and audit reports.

There are studies done on the determinant factors that enhance or impair the audit quality (Lin and Hwang 2010, Mlumad and Thoman 1990, Taylor and Simon 2001, Palmrose 1987, Stice 1991, Carcello and Nagy 2004, Meyers et al. 2003, Johnson et al. 2002), but their conclusions lack consistency and uncertain to link audit quality with its determinant factors. In addition, there are also other determinants of external audit quality which is not studied in the previous studies. So, in order to fill the gap and draw relevant conclusion, a new explanatory variables namely internal control of auditee's and number off staff assignment per audit engagement are covered in this studies to empirically analyze their effects on audit quality.

The basic research question, is thus,

“Do audit tenure, audit fee, internal control of auditee, accountability, and number of staffs assigned per engagement have influence on audit quality?”

1.3 The Research Objectives

1.3.1 General Objective

The general objective of the study is to examine the effects of internal control of auditee and number of staffs per engagement on quality whether of external audit service in private audit firms of Ethiopia.

1.3.2 Specific Objectives

The specific objectives are to examine:

- If internal control has an impact on audit quality.
- If number of staff assigned per engagement has an impact on audit quality.
- If accountability of external auditors has an impact on audit quality.
- If audit fee has an impact on audit quality.
- If audit tenure has an impact on audit quality.

Therefore, these general and specific research objectives were achieved by undertaking a quantitative survey study guided by the five hypotheses provided in the next section. The

reason that the inclusions of Audit tenure, Accountability, and audit fee in addition to the new unstudied variables i.e. internal control of auditee's and number of staffs assignment per engagement in this study is due to previous studies shows inconsistency to link the relationships exists with audit quality.

1.4 Hypotheses

In order to achieve the above five research objectives of this study, the following alternative hypotheses were developed based on the literature reviews made in chapter two.

Hypothesis 1: Audit tenure significantly influences audit quality.

Hypothesis 2: Audit fee significantly influences audit quality.

Hypothesis 3: Internal control of auditee's significantly influences audit quality.

Hypothesis 4: Accountability significantly influences audit quality.

Hypothesis 5: Number of staff assignment per audit engagement significantly influences audit quality.

In this study the researcher used a combination of confusion and neglect gap spotting to construct research questions and develop hypothesis. The previous Empirical studies made on audit quality in relation to determinants factors i.e. audit fee, audit firm tenure, accountability is confusing that some studies found positive association, the others found negative association, while some other found no relationship. In addition to that internal control of auditee and number of staffs assigned per engagement is not yet studied before. This is a neglect gap spotting from the perspective of the researcher. Therefore, this research aims to sort out the identified confusion and to develop a new knowledge in the literature and to explain it.

1.5 Scope of the study

The scope of the study was limited to the five very important explanatory variables audit tenure, audit fee, internal control of auditee, accountability, and number of staff assignment per audit engagements. Hence there might be other determinants of external audit quality. In addition the target population of the study was private audit firms of Ethiopia. As a result, the study excludes state owned audit Service Corporation from the target populations due to the fact that the data collected from this big company may cause outlier effects.

1.5 Significance of the study

The results of this study would provide important information to the audit firms, Academics, and government bodies, auditee's managements/Shareholders as highlighted below.

Audit firms: The study would provide insights to private audit firms of Ethiopia that which determinant factors are worthy to achieve audit quality. So, the findings of this study would be a valuable input for private audit firms of Ethiopia to distinguish which factor has to be considered to achieve audit quality.

Academics: As discussed in the literature review, the findings of determinant factors shows inconsistent conclusions. So, the findings of this study would add a significant value to the existing literatures. In addition, the study could be a reference for future researchers who want to study on determinants of audit quality.

Government body: The findings of the study would give an important information to regulators of accounting like AABE to formulate policies and strategies on audit quality based on the empirical evidences obtained from this study.

Auditee's management/Shareholders: The findings of the study would give an important information's to managements or shareholders of auditee's which determinant factors of audit quality are considered while taking audit engagements with external auditors. So, this would increase the audit requirements from external auditors to acquire a credible audit reports for their decision making.

CHAPTER TWO

2. Literature Review

2.1. Introduction

In the previous chapter the researcher has discussed and presented research motivation, statement of problem, objective of the study and research hypothesis. In this chapter the researcher reviewed and presented related literature of external audit quality and its determinants factors. This consist of defining variables, measurements of variables, and discussions and analysis of literature on the relationship between audit quality and its determinant factors. Hence, chapter two serves as background for this study by describing definitions, measurements, discussions and analysis of literature on audit quality and its determinant factors that could influence external audit quality.

2.2 Literature Review Selection Approach

The researcher selects a systematic literature review approach to answer a given research hypothesis/questions. The researcher has followed a systematic literature review by taking into account previous empirical studies which shows contradictions, gaps, and inconsistencies in their conclusions. This is done by identify, appraise and synthesize findings which are available in the existing empirical studies that meets the given specific research questions/hypothesis.

In addition, systematic review approach performed by the researcher is describing variables definitions, variables measurement, and analysis of relationships between determinant factors and audit quality. In addition, the researcher identifies, evaluate, and synthesize all the literatures that meets pre-specified eligibility criteria to answer a given research questions. The research tittle, author, objective of research, and findings and implications are discussed in this part.

2.3 Audit Quality

As stated by DeAngelo (1981) audit quality is defined as the probability of the auditor's detection mechanisms and report material breaches (Misstatements) in the accounting system. Audit quality is an attribute of the audit service that alleviates the conflict of

shareholders and the management interests. As per the seminar work made by DeAngelo (1981), the quality of audit is a dependent of two dependent factors; the first is the auditor's ability to examine accounts and identify errors (anomalies), and their technical competence to detect misstatements. The second is their objectivity and independence to report misstatements. Auditing quality is the combined probabilities of auditor's detection of misstatements and report such misstatements objectively (Watts and Zimmerman, 1986). Palmrose (1988) describes audit quality as a level of assurances. She states audit quality is the degree of assurance that financial statements contain no material omissions or misstatements. The definition of broadly mean that as the level of assurance increase there is a high probability of issuing appropriate audit report.

Measuring external audit quality is a complicated and challenging task (Jensen and Payne, 2005; Niemi, 2004; Wooten, 2003). However, according to the study made by Francis (2004), Bailey and Grambling (2005), PCAOB (2008): audit quality is measured in various measurements which are available on various literature reviews and in practices. Audit quality can be measure by quality control review, financial reporting compliance with Accounting standards, bankruptcy, SEC performance and desk review are used as a measurement of audit quality (Chadegani, 2011).

According to Mark DeFond et al. (2013), the actual audit quality is measured by the proxies of accounting restatement, going concern audit opinions and earning quality characteristics. Accounting restatement is the identification of material misstatements of the previous year and correction of these material misstatement in the current period. However, accounting restatement measurement as a proxy of audit quality has its own criticism that the absence of a restatement is not necessarily an indicator of high audit quality. The absence of an accounting restatement does not necessarily suggest high quality, for at least two reasons 1) if management prepares financial statements that are free of material errors, even a low-quality audit will not result in a restatement 2) material misstatements that result from low-quality audits may simply go undetected.

Lennox (1999) and Francis (2011) measured audit quality by using going concern audit report and client business failure. Going concern modified audit opinions communicate the auditor's evaluation of whether the going concern ability of the company is in substantial doubt. Therefore, studies that sought incorrect going concern opinions

definitively as an appropriate indicator for low audit quality. However numerous different types of material misstatements may occur, which are not connected to a going concern opinion, such as over or undervaluation of assets and debts in a good financial situation. Another audit quality measurement is discretionary accruals which is the most common proxy to gauge the audit quality. According to Choi et al. (2010), discretionary accruals show the extent to which managers manipulate earnings and therefore disclose the level of earnings management by managers. Therefore, the quality of audit is low when there is a high level of discretionary accruals and earnings management.

2.4 Determinants of audit quality

In this section the researcher briefly discusses definitions of variables, measurements of determinant variables, discussions and analysis of literatures on the relationship between audit fee, audit firm tenure, auditor's accountability, internal control of auditee, and number of staffs assigned per audit engagement. After reviewing the relationships between audit quality and its determinant factors in the existing literatures, the researcher has developed a statement of hypothesis on the relationship between audit quality and its determinant factors.

2.4.1 Audit fee

Audit fee is a payment made by the audit client to external audit firms for the service rendered. This audit fee includes the costs of field and office personnel's per diem, and other accommodations. The audit fee paid to external auditors is the estimated costs of staff time and actual costs of audit team members travel for the audit activities and margin of profit.

Audit fee can be measured as normal and abnormal fee (Choi et al., 2010). Normal audit fees are determined by the factors which are common across the clients such as size, complexity and client risk. Abnormal audit fees are arising when auditors feel they are not given audit fee in commensurate with their efforts. Therefore, abnormal audit fee is the fee paid to auditor above or below their expectations. Thus, the researcher uses abnormal fee (above normal audit fee/below normal audit fee) as a measurement of audit fee in the study. Audit prices and costs have many advantages of measurement audit fee due to continuous variation and variability; high audit fees will facilitate the assignment

of qualified auditors and have more time necessary for auditors to detect mistakes and errors in the financial statements (Defond and Zhang, 2014).

There are several studies made on the relationships on audit fee and audit quality. Kinney and Libby (2002) suggested that threat of external auditor's independence will be strong when audit clients are charged a high audit fee. Francis and Simon (1987) assumes that in a competitive market the amount of audit fee is an indications of audit quality. In this sense, when external auditors charge high audit fee is an indication of that external auditors are doing a quality audit. However, the determination of audit fee is based on determinant factors and their noisy proxies to determine audit quality. In this sense the existence of audit committee and their characteristics, and the use of internal audit are associated with a high level of audit fee and perceived that high audit quality is achieved when a high audit fee is charged (Francis, 2004). Several authors argued that when a high audit fee payment is made to external auditors, managers and entrepreneurs perceive that they are receiving high audit quality. Beatty (1993) reports the big 6 auditors are earning a greater compensation than non-big 6 auditors in the IPO market. Creswell, Francis, and Taylor (1995) has studied the relationship between auditor's prestige (reputation) and audit fee charged. Casswell, Francis and Taylor also studies audit fee premium for audit specialization within the big 8 audit firms, in addition to audit fee premium for the big 8 audit names. According to the study made by Chaney, Jeter and Shivakumar (2009) they were unable to find a significant big 5 audit fee premium. Although there are some evidences that audit fee does not contain this premium, economic agent states that are willing to bear some increase in cost for what are perceived high audit clients. Beatty (1989) suggests that auditors are performing a certification role by taking their reputation on the quality of audit for a certification role of IPO's. Hence, firms buy the certificates by selecting audit firm with a high reputational capital those who will charges a high audit fee.

According to the study made by Sharma (2003) and Goodwin and Kent (2006) the higher audit fee payment is associated with frequent audit committee meetings to review the quality of audit work. In U.S. market a large audit fee premium payment is an indication of large audit firms typically the big 5 now the big 4 audit firms are receiving high audit fee and renders a high audit quality than the non-big audit firms. Based on the review of

the existing literatures, a general conclusions has been made that a strong relationship occurs between the amount of audit fee payment and audit quality services. In addition, big audit firms are earning a high audit fee payment and provides a high audit quality.

Another study was conducted by Antonio Lopo Martinez has studied the relationships between audit fee and audit quality. His studies were based on a sample size of 300 audit firms listed on the Brazil market from the period 2009 to 2012 and he concludes that abnormal audit fee payments were related to abnormal discretionary accruals in the Brazilian capital market. The relationships between audit quality and audit fee was studied on Indonesian capital market by Suseno (2013). Suseno used a sample of 73 public accountants' offices and employed an empirical analysis to see the effect of audit fee on audit quality. The study applied an explanatory research and uses primary data such as questionnaire and interviews. Suseno (2013) concludes that audit fee has a significant impact on audit quality. In another term suseno (2013) states, optima audit fee provides audit quality assurance. Tensae Nebiye (2017), concludes that Audit fee has a positive relationship with audit quality.

Taking into account the above-mentioned findings, this study hypothesizes:

Hypothesis 1: Audit fee significantly influences audit quality.

2.4.2 Audit tenure

Audit tenure is audit firm's total duration working with the client. When there is a major financial fraud, critics of the auditing profession could recommend mandatory auditor rotation to counter the impairment of auditor independence and lack of professional skepticism associated with long term auditor-client relationship. Mandatory auditor rotation is considered as audit partner rotation, and the other is audit firm rotation.

Myers (2003), measures auditor tenure as the number of consecutive years the firm has retained the auditor. Therefore, the researcher measures audit tenure by using ordinal scale of non-metric measurement as short-term audit tenure and long-term audit tenure by which short term audit tenure is total duration of holding clients for three years or less three years while long-term audit tenure is duration of holding audit clients more than three years. According to Iskndar et al. (2010), When financial statements of audit clients has been audited by the same audit firm for three years, it is defined as short audit tenure;

but, if the same audit clients financial statements are audited by the same audited firm for more than three years that is called long audit tenure.

There are many studies which investigates the impact of audit firm tenure on external audit quality, but their conclusions are controversial. Johnson, Khurana and Reynold (2002) describes audit tenure as “the audit firm’s (auditors) total durations to hold their client or number of consequent years that the audit firm (auditor) has audited the client”. This audit tenure is defined in terms of audit firm’s tenure with the client and the tenure of staffs engaged in the client, especially the audit partners. There are various empirical studies done on the influence of audit tenure on the quality of audit. Johnson et al. (2002) states that audit quality both increase or decrease as audit firm tenure increase. There are also other studies that shows audit partner tenure with audit clients has a positive impact on audit quality (Chi, Haung, Liao and Xie, 2009). In this study, the rotation of audit partners results a decrease in audit quality. On the other hand, there are studies that shows a negative relationship exists between audit partner’s tenure and audit client (Carey and Simnett, 2006).

Amsalu Gelaneh (2011), concludes that long audit tenure has a negative impact on audit quality. Ahmed (2014) states there is a negative relationship between audit tenure and audit quality. Adeyemi, S.B. et.al (2012), concludes that audit tenure has a negative relationship with audit quality. In this sense audit firms rotations is not a significant factor for enhancing audit quality. Another study was conducted by Bogale Arebu (2016), he states that a positive relationship exists but insignificant between audit tenure and audit quality.

Another study was conducted by Amsalu Gelaneh (2011) the impact of audit tenure on audit quality in Addis Ababa. He used a primary data of questionnaire which was gathered from six audit firms includes a total of 50 auditors in Addis Ababa and investigates the impact of extended and short audit tenure on audit quality. The researcher used a random sampling technique to select samples and the collected data was analyze by using SPSS. Amssalu Gelaneh (2011) concludes that.

- Extended audit tenure has a negative impact on audit quality by impairing auditor’s independence due to familiarity treat which in turn impairs auditor’s objective and professional judgment.

- Or, long audit tenure highly reduces auditor's independence and audit quality compared to that of short audit tenure.

Ahmed (2014) studied the perceptions of professional auditors on the impact of audit firm rotation on audit quality in Egypt. The study used primary data that was collected via the distribution of questionnaires. The population where a sample size of 143 auditor was taken. T-test was used to analyze the data and findings showed generally that audit tenure influences audit quality. The findings reveal s that audit tenure has a negative influence on audit quality.

Adeyemi, S. B. et.al (2012), investigated factors affecting the quality of Audit in Nigeria. The study used both primary and secondary data specifically survey and archival method was employed respectively. The survey was distributed to shareholders, auditors, analysts, brokers, regulators, management, academicians and others. He used a random sampling technique to draw 430 respondents from several stakeholders in the fields of financial reporting and auditing and forty annual reports were generated from the financial statements of companies quoted on the Nigerian Stock Exchange were the sample size in the study. He used SPSS, version 1, to analyze the data and test hypothesis. The findings revealed that, audit firm rotation is not a significant factor for enhancing audit quality in Nigeria.

Therefore, there is not an agreed conclusion that shows the relationships exists between audit tenure and audit quality.

Taking into account the above-mentioned findings, this study hypothesizes:

Hypothesis 2: Audit tenure significantly influences audit quality

2.4.3 Accountability

Accountability is the auditor's social liability, motivation, and dedication with respect to the audit of financial statements and an overview of the planned audit scope, the timing of the planned audit and the opinion of the audit results. Auditor's motivation is defined as auditor's commitment to deliver the audit results in accordance stages and auditors committed to complete the audit work in accordance with the contract work is able to present the financial statements reflected in the financial report enforcement auditors based on Financial Reports as the output of accounting information systems.

Accountability is accountable or circumstances to be held accountable whose indicators include motivation, social obligations and competencies (Ilmiati and Suharjo, 2012).

According Kalbers and Forgy (1995), accountability is measured as dedication to the profession and social obligation. According to Cloyd (1987), there are three identified measurements of accountability namely social obligation, dedication to the profession, and motivation. Therefore, the researcher used dedications to the profession and social obligation as a measure of audit quality.

There are various studies that investigate the impact of accountability on audit quality (Narayan (1994), Acemoglu and Geitzman (1997), Mlumad and Thoman (1990), Taylor and Simon (2001), Dye (1993), Free (1999). Audit firms are accountable to the regulators (Chung, Farrar, Puri and Thorne, 2010). In this sense, auditors are accountable to regulatory bodies and perform their action by taking responsibility. Audit failures lead to risk of litigation and litigation costs of clients, stakeholders, investors, government, and other users of financial statements. Hence, these litigation risks and associated costs exert pressure on auditors to perform their audit works carefully. Free (1999) auditors are more responsible in their duties to satisfy the need of economic players and stakeholders. This is due to the importance of financial statements to market higher degree of auditor's works is expected by the investors. Hence such expectations of financial statement users force auditors to take a risk of liability payment.

According to the study made by Schwartz (1997) a liability of auditors can be an insurance for investors to prevent possible audit failures of financial statements. Therefore, such a litigation risk of auditors causes to perform a high-quality audit based on objective. In addition, the audit cost of auditors will increase due to the necessity of high experienced and skillful staffs to mitigate the failures arise and to reduce litigation risks. Large audit firms are expected to be more liable in their duties by audit clients, stakeholders, investors and other financial statement users. Ding and Jai (2012), indicates that to reduce audit failure or litigation costs, large audit firms are more accountable. Other studies made by DeFong (2012), Lennox and Li (2012) states due to the high accountability of large audit firms, they have more litigation costs i.e. to increase audit quality. There by, auditors may not accept audit clients with a high risk to avoid extra litigations arise from litigation risks and associated costs. Laux and Newman (2010)

states auditors are forced to reject audit clients with a high risk in order to avoid extra litigations of reputation loss, attorney fee and related audit costs. Therefore, the acceptance of such risky clients may impair auditor's independence and causes a high demand of audit fee (Schneider, 2011). Hence the acceptance and countenance of clients with a higher risk can affect audit quality. Therefore, large audit firms must be more precise in selecting audit clients to reduce the litigation risks (Kaplan and Willian, 2012). However, both higher and lower liability of audit firms may put audit firms in a litigation risk. Acemoglu and Goetzman (1997) suggests audit firm partners shouldn't be involved in increasing their liability.

Another study was conducted by Suseno (2012) on the determinant factors affecting audit quality. In this study he considers three variable such as independence, experience and accountability's study support that independence and accountability affects audit quality and rejects experience did not affect audit quality. Suseno (2012) adds accountability is the dominant factor affecting audit quality compared to independence and experience. Tinsae Nebiye (2017) has studied the relationships exists between accountability on audit quality. The objective of the study was to examine the determinants of external audit quality in Ethiopian audit firms. He uses a sample of 52 audit firms and employed a quantitative study based on a primary data i.e. questionnaire and interviews. The researcher concludes that auditor's accountability has a significant positive impact on audit quality.

As a conclusion, the liability of auditors to stakeholders, government, investors, clients and other users of financial statements, can reduce litigation risks and associated costs by reducing audit failures, and there by increasing the quality of audit. Based on the review of the existing literatures, we therefore develop the following hypothesis.

Hypothesis 3: Accountability of auditors significantly influences audit quality.

2.4.4 Internal Control

International organization of Supreme Audit Institutions (INTOSAI) (1998, P.6) defines internal controls as “a process, affected by an entities board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement objectives”. A widely accepted definition of internal control comes from the Committee

of Sponsoring Organizations of the Tread way Commission (COSO) that internal control is a system designed by the company board of directors, senior management teams and other personnel to afford a rational assurance regarding to the achievement of business objectives and goals. Internal Control can be defined as a system designed, introduced and maintained by the company's management and top-level executives, to provide a substantial degree of assurance in achieving business objective, while complying with the policies and laws, safeguarding the assets, maintaining efficiency and effectiveness in regular operations and reliability of financial statements. Internal controls are the policies and procedures that a business puts into place in order to protect its assets, ensure its accounting data is correct, maximize the efficiency of its operation and promote an atmosphere of compliance among its employees.

Husam Al-Khaddash, (2013) has studied factors affecting audit quality in the case of Jordanian commercial banks. In this study internal control was considered as independent variable along with independence, auditor's efficiency, reputation, firm size, specialty and proficiency of auditor's. The study concludes that internal control system doesn't affect auditing quality in the Jordanian banking sector.

The relationship among audit committee characteristics and internal control weaknesses has been investigated (Krishnan, 2005). In this sense the quality of audit is achieved by a process of detecting and guiding the activities of the entity to attain audit quality. According to Carcello and Neal (2000), the audit committee should play an important role in monitoring to assure the quality of financial reporting in addition to serves as an important governance mechanism. The potential litigation risk and reputation impairment faced by audit committee members ensure that these audit committee members discharge their responsibilities effectively.

As a result, when audit clients have a good internal control system it could mitigates management intentionally accrual of earnings, frauds, errors. As a result, the presence of internal control enhances audit clients to produce trustworthy financial statements and this could increase the confidence of external auditors to report a credible audit report.

Therefore, the hypothesis is formulated as follow:

Hypothesis: Internal control of auditee's significantly influences audit quality.

2.4.5 Number of staff's assignment in audit Engagements

Theoretically, when the number of staffs increases in audit engagements a high audit quality work is performed. This is due to budget time is achieved on time, risks of misstatements are identified, integrated work is performed with a good teamwork and discussions among the audit teams. The teamwork and discussions among the audit teams enhances to identify risks associated with the accounts, to identify relevant audit assertions and to draw appropriate audit procedures. These appropriate audit procedures are performed by the audit team members during field work and helps audit teams to address the risk of material misstatements of account balance, class of transactions and disclosures. In other View, the number of staffs assigned in audit engagements helps auditors to achieve the audit deadlines set by with a discussion with audit clients. The knowledge sharing among the audit team members helps to detect errors, frauds, and risk of misstatements (ISA 315).

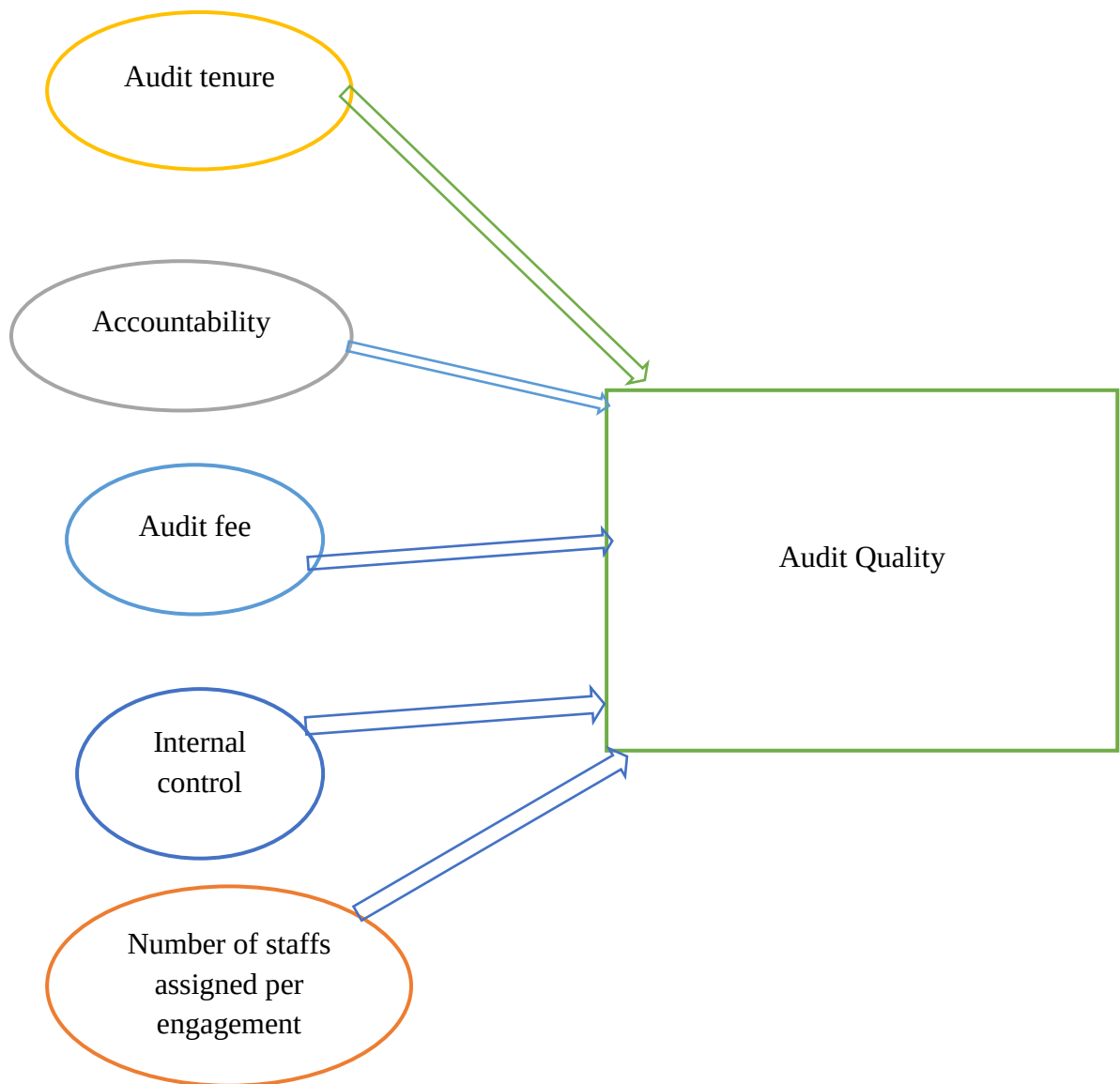
Sarowar et al. (2013), has studied the relationship between audit team composition, audit fee and audit quality. The study investigates the relationship between both the number of accounting and non-accounting professionals on an audit team and audit quality. Sarowar Hossain (2013), concludes there is a positive association between audit quality and the number of accounting professionals on an audit team. While a negative association was found between the size of non-accounting professionals and audit quality. Sarowar added that audit quality is achieved when skilled and professional's auditors and their staffs transform auditing efforts into assurance by reducing the residual risk of material misstatements. Therefore, in this study the relationship between audit quality and size of accounting professionals is considered to support the independent variable number of staffs assigned per engagement. This is due to in this study the population is private audit firms and these private audit firms has only accounting professionals

Therefore, the increment in number of audit staffs on audit engagement helps to perform a high audit work by transform audit effort to detect material misstatements and finally achieves audit quality. Therefore, the hypothesis is formulated as follow:

Hypothesis 5: Number of staff assignment per engagements significantly influences audit quality.

Figure 1: Conceptual Framework of audit quality and determinant factors

According to Mugenda and Mugenda (2008), conceptual frame work is a concise brief presentation of the linkage between the hypothesized relationships with the real ideas of investigations or thoughts. The conceptual frame work indicated below relates the association between the independent variables (audit tenure, audit fee, accountability of external auditors, internal control of auditee's, and number of staff assignment) and dependent variable external audit quality in private audit firms of Ethiopia.



CHAPTER THREE

3. Research Methodology

3.1 Introduction

In the previous chapter literature reviews were discussed by taking the work of many researchers and enables the researcher to have in-depth understand about determinants of audit quality. This chapter define the research methods used and explains how the necessary data and information to address the research objectives and questions was collected, presented and analyzed. Therefore, research methods such as research design, population and sampling techniques, model specification, data collection method, data analysis and measurements are discussed.

3.2 Research Design

The research adopted a quantitative research approach by using primary source of data, specifically interviews and questionnaire were used. To address the research objective the researcher used interview and questionnaire to collect data and employed a descriptive research study. In this study the researcher has no control over variables and will only report what has happened or what is happening (Kothari, 2004). To see the cause and effect relation of independent variables on audit quality explanatory research design is employed. The primary purpose of explanatory research design is to determine how events occur and which ones may influence outcomes (Dawson R. and Bob, 2006). Therefore, this study used both descriptive and explanatory method in order to explain the determinant factors that affect audit quality in Ethiopian private audit firms. A purposive sampling method was used to select respondents from the target populations.

3.3 Population and Sampling

3.3.1 Target Population

Population is the entire group of items by which samples can be taken. Therefore, the target population is private audit firms of Ethiopia. There are 143 licensed and registered private audit firms in Accounting and Auditing Board of Ethiopia (AABE) as of

November 6, 2019. In this study, the researcher took 122 licensed and registered private audit firms found in Addis Ababa from the total populations of 143 licensed and registered private audit firms under AABE. Therefore, the target population are 122 registered and licensed private audit firms found in Addis Ababa.

3.3.2 Sample Design and Size

Particularly, the researcher selected 55 licensed and registered private firms from the total population of 122 licensed and registered private audit firms which are found in Addis Ababa city by using Slovin (1843) formula. The selection of 55 respondents were based on considering the age of the audit firm by which the oldest in age were selected. The researcher used both questionnaire and interview to collect data. Questionnaires were distributed for the selected sample of 55 private audit firms which are related to the independent variables internal control of auditee's and accountability of external auditors. Related to the other three independent variables: audit tenure, audit fee, and number of staff's assignment per audit engagements the researcher will interview the partners/principals of the audit firm. The data obtained from the respondents will be very representative and reasonable to draw conclusion.

The source of data for dependent variable was audited annual financial reports of audited companies for the audit period of 2018. Annual audited financial report for the period was taken from the records of each 55 selected audit firms and estimated the discretionary accruals i.e. the proxy of audit quality. Therefore, the researcher has taken 55 audited financial reports from the 55 selected audit firms i.e. 55 audit reports from the audit period of 2018 along with 2017 comparatives. The criteria of selection audited annual financial reports was randomly from the record of audit firms.

Minimum size of samples is determined with Slovin (1843) Formula, as the following (Umar, 2004):

$$n = \frac{N}{1 + Ne^2}$$

Explanation:

n = Minimum size of samples i.e. 55 licensed and registered private audit firms

N = a total of 122 licensed and registered private audit firms under AABE which are found in Addis Ababa.

e = sampling error on this research (10%)

Therefore, based on the above formula, the 55 samples are selected out of 122 licensed and registered private audit firms found in Addis Ababa city. Fifty five respondents were taken from the 55 selected private audit firms.

3.4 Model Specification

In order to analyze the relationships between dependent variable and several independent variables, multiple regression analysis can be applied (Hair et al., 2005). There for, a multiple regression analysis was conducted to see the relationships between independent and dependent variables of the study. The type of regression analysis employed in this study is multiple regression analysis. The reason for using multiple regression analysis is due to the study involves a single metric dependent variable presumed to be related to two or more metric or non-metric independent variables.

The regression model of the study looks as follows:

$$Y = a + b_1X_1 + b_2X_2 + b_3X_3 + b_4X_4 + b_5X_5 + e$$

Where,

Y = audit quality (DACR)

a = value of Y if $X_1 + X_2 + X_3 + X_4 + X_5 = 0$

b₁, b₂, b₃, b₄, b₅= coefficients of regression

X₁ = audit tenure

X₂ = log of audit fee

X₃ = internal control

X₄ = accountability

X₅ = number of staffs assigned per engagement

e = residual value

3.5 Variables and Measurement

Dependent variables (Y): In this study audit quality is measured using discretionary accrual as its proxy. The reason for using discretionary accrual for measurement of audit

quality is that most prior empirical studies used discretionary accrual to measure audit quality (Dechow and Dichev, 2002; Meyers et al., 2003; Johnson et al., 2002).

There are two types of accrual namely discretionary accrual and non-discretionary accrual. Discretionary accrual is defined as a manipulation made by management for their intended purpose of earnings/income. The manipulation made by the management is using their power in control and creating policies, following inappropriate accounting policies and standards which reflects management's potential bias in management's judgments. While non-discretionary accrual is accruing of management earnings based on the true financial performances and normal transactions of the company during the period (Bogale Arebu, 2016).

Therefore, the researcher has deducted non-discretionary accruals from the total accruals of management earnings to arrive on the net discretionary accruals. The presence of abnormal discretionary accruals may not indicate the true financial performance of the company. High audit quality detects and prevents intentional inclusions of management's earnings in the financial statements. Hence, high level of audit quality is related with the minimum level discretionary accruals of management earnings.

Total accrual was measured by balance sheet approach formula:

$$TACR_{i,t} = (\Delta CA_{i,t} / TA_{i,t-1}) - (\Delta Cash_{i,t} / TA_{i,t-1}) - (\Delta CL_{i,t} / TA_{i,t-1}) + (\Delta STDebt_{i,t} / TA_{i,t-1}) - (\Delta Depri_{i,t} / TA_{i,t-1}) + e$$

Whereas:

- $TACR_{i,t}$ = Total accruals of firm i in time period t;
- $\Delta CA_{i,t}$ = Changes in current assets of firm i from time period t-1 to t;
- $TA_{i,t-1}$ = Total assets for firm i at the end of year t-1;
- $\Delta Cash_{i,t}$ = Change in cash balance of firm i from time period t-1 to t;
- $\Delta CL_{i,t}$ = Change in current liabilities of firm i from time period t-1 to t;
- $\Delta STDebt_{i,t}$ = Change in short-term debt of firm i from time period t-1 to t;
- $\Delta Depri_{i,t}$ = Depreciation and amortization Expense of firm i from time period t-1 to t;
- e = error term which is residuals from the model.

Non-Discretionary accrual were measured by the following formula.

$$NDACR_{i,t} = 1/TA_{i,t-1} + (\Delta Rev_{i,t} - \Delta Rec_{i,t}) / TA_{i,t-1} + PPE_{i,t} / TA_{i,t-1}$$

Whereas:

- $NDACCI,t$ = Non-Discretionary Accruals for firm i in year t ;
- $TA_{i,t-1}$ = Total Assets for firm i at the end of year $t-1$;
- $\Delta Revi,t$ = Change in Revenue for firm i in year t divided by Total Assets for firm i at the end of year $t-1$;
- $\Delta Rec_{i,t}$ = Change in Net Receivable for firm i in year t divided by Total Assets for firm i at the end of year $t-1$;
- $PPE_{i,t}$ = gross value of property Plant and Equipment for firm i in year t divided by

Finally, discretionary accrual is computed as follows. The researcher has taken an absolute value discretionary accrual for analysis purposes.

$$DACR_{i,t} = TACR_{i,t} - NDACR_{i,t}$$

Where;

$DACR_{i,t}$ = Discretionary accrual of firm I at year t .

$TACR_{i,t}$ = Total Accrual of firm I at year t .

$NDACR_{i,t}$ = non-discretionary accrual of firm I at year t .

Audit tenure (X1): Audit tenure is the independent variable and is defined as audit firm's total duration in terms of years holding their client.

Audit fee (X2): Audit fee is a payment made by the audit client to external audit firms for the service rendered. The researcher measured audit fee as natural log of average audit fee charged per a single audit engagement. The average audit fee is a payment in Ethiopian birr in a given audit engagements. The average of audit fee was transformed into natural logarithm for input of SPSS version 25.

Internal Control (X3): Internal control is a process that is designed by a company's board of directors and top management to provide reasonable assurance regarding the achievement of company objectives. In this study internal control of auditee's measured by using a scale ranging between very strong and very weak internal control. The strong internal control indicators are implementations of the designed segregation of duties and responsibilities, timely reconciliations of accounts to sub ledger/supporting details, periodic observation of operational controls, restricted security access controls to appropriate people, and periodic review of established limits.

While, weak internal control indicators are the designed segregation of duties and responsibility is not implemented, reconciliation of accounts to sub ledger/supporting details is not made on time, non-periodic observation of operational controls, security access controls is not restricted, and established limits are not periodically reviewed.

Accountability (X4): Accountability is the dedications and responsibility of external auditors to stakeholders, government, shareholders and other users of financial statements. The researcher measured accountability by using a scale ranging from very high accountability to very low accountability. This accountability measurement is based on the objectivity requirements of audit clients from external auditors.

These objective requirements of audit clients from external auditors are: reports on significance weaknesses in the company systems or other business matters observed during normal audit work, Comments on adjusted or unadjusted errors in the financial statements or on accounting policies and practices, confidentiality of working papers and other clients information's from the engagements are not available to any external body's requests except the regulatory review of AABE, a credible reporting on the fairness of financial statements, confirmation of management representation letter from appropriate directors or senior officials to ensure that all relevant financial information are disclosed. Therefore, high accountability exists when external auditors achieve such requirements of audit clients and low accountability when they do not achieve such requirements.

Number of staffs assigned per engagement (X5): In this research the variable was measured in terms of number of independent auditors involved in a given audit work. Therefore, number of staffs assigned per engagement measured by using ratio scale of metric measurement as a composition of staff size in each audit work.

3.6 Data Collection Method

3.6.1 Primary Data Collection

Questionnaires was developed based the previous literature reviews and distributed to the selected samples. For independent Variables internal control and accountability, closed ended questionnaire were developed based on a Likert scale ranging from strongly agree to strongly disagree where 1 represents strongly agree and 5 strongly disagree. For audit fee, audit tenure and number of staff assignment per audit engagement, the researcher

interviewed the principals/partners of the audit firm. The reason for interviewing only the partners/principals is due to appropriate information's about audit fee, audit tenure, and number of staffs assignment are obtained from the principal of the company. Interview data were quantified in terms of ratio scales for the model analysis.

Table 3.1 List of variable measurement indicators

Variable	Measurement
Audit tenure	❖ firm's total duration holding their client in terms of years
Accountability	❖ Maintaining Confidentiality of working papers and other client's information except the regulatory review of AABE ❖ Reporting a credible financial information ❖ Reports on significance weakness of company policies and practices ❖ Comments on adjusted or unadjusted errors in the financial statements or on accounting policies and practices. ❖ Management representation letter is confirmed before issuing of audit reports and ensured that all relevant financial information are disclosed.
Audit fee	❖ Natural log of average audit fee charged per audit engagement.
Internal control	❖ segregation of duties and responsibilities ❖ timely reconciliations of accounts to sub ledger/supporting details ❖ periodic observation of operational controls ❖ restricted security access controls to appropriate people ❖ periodic review of established limits
Number of staffs assigned per engagement	❖ average number of audit staffs assigned in a single audit engagement
Audit Quality	❖ Absolute value of discretionary accruals of management earning disclosed in financial statement.

3.6.2 Secondary Data Collection

The source of data for dependent variable were collected by examining documents and records of audited annual financial reports of audited companies for the audit period of 2018 and 2017. The reason of taking 2018 audit period was due to the year is latest and easy to find the file from the archival file of audit firms. Data of 2017 were presented in the audit report of the audit period 2018 as comparative figures.

3.7 Data Analysis

The demographic profile of the respondents were assessed by using descriptive statistics such that frequency distribution in order to make the analysis meaningful. A descriptive statistic was used to present the data acquired in a structured, accurate and summarized manner. The analysis of data was done with the help of the statistical software SPSS version 25.

The data collected through questionnaire were summarized in an excel spreadsheet and sorted for completeness, checked for any errors and omissions, and summarized in tables. The data obtained were entered into the computer and statistically analyzed using SPSS. Descriptive statistics as well as the validity test were conducted as for the regression part and OLS (ordinary least square) method was used. Descriptive statistics by percentages, figures and tables were generated from the software to establish relationship among variables. The relevant information was obtained in a standard form using tables, frequencies and percentages to analyze and interpret the information.

The researcher used a random effect data analysis techniques due to variables included in the model could vary among private audit firms and in time. In addition the data gathered for the study is collected from various private audit firms through questionnaire. The researcher assumes that the mean of the distribution effect is assumed to be common for the study than using a single effect estimates. The confidence interval and standard errors of the effect is wider under the random effect analysis. Therefore, by considering such conditions and the data collected for analysis, the researcher used random effect analysis techniques.

3.7.1 Validity Testing

Validity is the extent to which the scores from a measure represent the variable they are intended to measure. Data validity was done for questionnaires developed related to internal control of auditee's and accountability of auditors. In order to ensure that respondents interpreted the research questionnaires the same way, the study has pre-tested questionnaires before collected full data. The validity of questionnaires in the study was pre-tested and checked the correctness of wording and exclude vague questions and misunderstandings. Therefore the pre-testing techniques employed has ensured that the gathered data for analysis were valid.

3.7.2 Reliability Testing

The main purpose of reliability test is to examine the consistency exist in the collected data. The reliability measurement is done with one shot, and then the result was compared with other items in the questionnaire. SPSS software gives the facility to analyze this test using Cronbach's Alpha. According to Ghazali (2006) a construct or variable is reliable if the Cronbach's Alpha is more than 0.6.

The researcher has done reliability testing for the independent variables of internal control of auditee's and accountability. This is due to only these two independent variables was measured by using a Likert scale questionnaires. The other independent variable audit fee, audit tenure, and number of staffs' assignment per engagement are measured by using ratio scale and no need of testing their reliability. Therefore, Cronbach's alpha were used to test the reliability of the data, the classical assumption of multiple linear regression has been tested as provided below.

3.7.3 Assumptions of Regression

3.7.3.1 Normality Testing

Neutrality testing is used to know that the independent and dependent data are normally distributed. According to Brooks (2014), if the residuals are normally distributed, the histogram should be bell-shaped, and also a normal distribution will have a coefficient of excess kurtosis of zero. One of the most commonly applied tests for normality is the

Sharpo-Wilk test. So, as per Sharpo-Wilk test if the p-value of normality test is greater than 5% the data is assumed normally distributed. Therefore, normality of the data was tested by using Sharpo-Wilk test.

3.7.3.2 Multicollinearity Testing

In statistics, multicollinearity (also collinearity) is a phenomenon in which one independent variable in a multiple regression model can be linearly predicted from the other variables with a substantial degree of accuracy. The presence of relationships among the independent variables with each other, then removing or adding a variable from a regression equation would cause the values of the coefficients on the other variables to change. According to Brooks (2008), when the independent variables are very highly related with each other shows there is Multicollinearity problem.

To assess the multicollinearity in this study, the researcher used a detection mechanism of variance inflation factor (VIF) and Pearson correlation matrix which shows the correlations exists between independent variables. According to Hair et al. (2006), the correlation coefficient below 0.9 may not cause serious multicollinearity problem.

3.7.3.3 Heteroscedasticity Testing

The classical linear regression model (CLRM) assumption states that the variance of error term has to be constant across all observation. This constant variance is referred to as a homoscedastic error term. When there is variance in error terms among the observations, the assumptions of OLS estimator is violated and referred as heteroscedasticity. The presence of heteroscedasticity causes the standard errors will be wrong and the inferences made could be misleading.

Heteroscedasticity assumption was tested by using Breusch-pagan test. When the probability value of the Breusch-pagan value is higher than 0.05, there is no a problem of heteroscedasticity.

3.7.3.4 Autocorrelation testing

The other assumption of classical linear regression model (CLRM) assumption is autocorrelation, which states that the error terms are uncorrelated with one another i.e. $\{cov(u_i, u_j) = 0 \text{ for } i \neq j\}$. When the errors are not uncorrelated with one another, it would be stated that they are “auto correlated” or “serially correlated”. Though the presence of autocorrelation may not cause OLS estimators biased, but the standard errors might be inefficient and biased.

Therefore, the researcher tested autocorrelation by using Durbin-Watson (DW) test. According to Durbin-Watson test when DW Value is two or near to two, indicates that there is no autocorrelation problem.

3.7.3.5 Zero Mean Error

According to Brooks (2008), when the regression equation includes constant term, the assumption zero mean error will never be violated. Thus, the regression model used in this study has included a constant term, and the assumption was not violated.

3.8 Testing Hypothesis

There are five independent variables which are correlated to a single dependent variable. Therefore, this research was analyzed based on multiple linear regression. The reason for using multiple regression analysis is due to the study involves a single metric dependent variable presumed to be related to two or more metric or non-metric independent variables. The researcher has used a 5% level of significance with a two-tail testing to test hypothesis developed. Hence the statistically significance relationship exists between audit quality and its determinant factors has been accepted if the p-value is less than 0.05% (Brooks, 2008).

CHAPTER FOUR

4. DATA PRESENTATION, ANALYSIS, AND DISCUSSION OF RESULTS

4.1 Introduction

In the previous chapter research methods research design, population and sampling techniques, model specification, data collection method, data analysis and measurements were discussed. In this Chapter the data collected from questionnaires, interviews and secondary sources has presented, analyzed, discussed and interpreted. Before coding and entering the collected data into SPSS (version 25), the researcher has arranged and summarized in excel and check the consistency of the data. Basically SPSS (Version 25) were used to analyze, interpret and inferences were taken from it to explain the relationships between the predicted variable audit quality and five explanatory variables i.e. audit tenure, audit fee, number of staffs assignment per audit engagement, accountability of external auditors, and Internal control of auditee's. Tables are also used to present findings.

Descriptive statistics such as frequency distribution and percentages were used to analyze general information. Linear multiple regression analysis was used to know the relationship between dependent variables and independent variable in the case of private audit firms of Ethiopia.

4.2 Response Rate

A total of 55 semi-structured questionnaires were administered to 55 licensed and registered private audit firms in Ethiopia. The study managed to receive a total of 55 filled questionnaires which constituted a response rate of 100%. Because of questionnaires are fully responded this is sufficient to enable the researcher to draw adequate conclusions.

Table 4.1: Response Rate

Response rate	Frequency	Percentage
Filled	55	100%
Not Filled	0	0%
Total	55	100%

Source: Research Data (2020)

4.3 Missing Data

The researcher has distributed fifty-five self-administered questionnaires to the selected fifty-five audit firms. The researcher has full collected all fifty-five questionnaires. This is due to the researcher has self-managed the distributed questionnaires.

4.4 General Information

The researcher has included five demographic information's in the study. These are: gender, educational qualification, Membership of International association, position and Experience in the sector. The results in the below tables represent distribution of sample individuals according to demographic variables.

Table 4.2 Summary of demographic characteristics of Respondents.

Category	Item	Frequency	Percent
Gender	Male	41	75%
	Female	14	25%
	Total	55	100%
Education	Diploma	0	0%
	Bachelor Degree	37	67%
	Master	18	33%
	PHD	0	0%
	Total	55	100%
Membership of international association	ACCA	29	53 %
	CPA	5	9%
	Partially ACCA Qualified	16	29%
	None	5	9%
	Total	55	100%
Position	Junior	0	0
	Senior	25	45%
	Manager	30	55%
	Director	0	0
	Principal/Partner	0	100%
	Total	55	100%
Experience	Less than 3 years	0	0
	3 to 5 years	20	36%
	6 to 10 Years	17	31%
	More than 10 years	18	33%
	Total	55	100%

Source: Research questionnaire (2020)

As we see from table 4.2, demographic and personal data of the respondents 41 (75%) are male and 14 (25%) are Females. This shows that the number of females in private audit firms of Ethiopia is less than Males numbers. The education qualification of respondents 37 (67%) are holders of Bachelor degree and 18 (33%) are holders of Master's Degree.

Regard to a membership of international professional associations, 29 (55%) of the respondents have ACCA, 5 (9%) of the respondents have CPA, 16 (29%) of the respondents have Diploma ACCA (Partially qualified in ACCA), and the other 5 (9%) of the respondents are not a member of any international associations.

Regarding to job position of the respondents, 30 (55%) are audit managers and 25 (45%) are senior auditors. In relation to the job experience of respondents, 20 (36%) has 3 to 5 years' experience, 17 (31%) has 6 to 10 years' experience, and 18 (33%) has more than 10 years of experience.

As a result of purposive taking of respondents from each private audit firms, the demographic characteristics of the respondents are sensible and to draw conclusion on the determinants of external audit quality in the case of private audit firms of Ethiopia.

4.5 Data Reliability

To ensure reliability of the Likert scaled questionnaires employed in the study, Cronbach's Alpha reliability analysis was used with minimum of co-efficient $\alpha \geq 0.6$. Data reliability testing was done for questionnaires developed on the independent variables internal control of auditee's and accountability. This is due to accountability and internal control of auditee's was measured by using a Likert scale questionnaire. The other variables included in the study audit quality, audit fee, audit tenure and number of staff assignment per audit engagement was measured by a ratio scale and we are not required to test their reliability.

The reliability analysis results are as appeared in table. According to Ghazali (2006) a variable is reliable if the Cronbach's Alpha is more than 0.6.

Table 4.3 Reliability Analysis

Variable	Cronbach's Alpha	N of Item
Internal control of auditee's	0.725	5
Accountability	0.707	5

Item Total Statistics-Internal control

	Scale Mean if Item Deleted	Scale Variance if Item Deleted	Corrected Item-Total Correlation	Cronbach's Alpha if Item Deleted
Segregation of duties and responsibilities	17.23636	1.8875420	0.4397828	0.6992508
Accounts reconciliations to sub-ledger or supporting details	17.27272	1.9057239	0.4853568	0.6779740
periodic observation of operational Controls	17.49090	1.8471380	0.597768	0.6343419
Security access Control	17.5454	1.9932659	0.529995	0.6639639
Audit Clients review of established limits	17.3636	2.0505050	0.392308	0.7133004

Item Total Statistics-Accountability

	Scale Mean if Item Deleted	Scale Variance if Item Deleted	Corrected Item-Total Correlation	Cronbach's Alpha if Item Deleted
Confidentiality of working papers	17.73	1.832	0.394	0.687
Reporting of significance weakness to managements	18	1.519	0.674	0.562
Comment on adjusting or unadjusted errors on time	18.02	1.685	0.518	0.635
credible financial report to managements/Share holders	18.11	1.877	0.402	0.682
Confirmation of management representation letter	17.67	1.928	0.342	0.705

Source: Reliability Statistics, SPSS Version 25 computation (2020)

The test established Cronbach's Alpha co-efficient for internal control of auditee's and accountability of external auditors is 0.725 and 0.707 respectively. This implied that the questionnaires used in research instrument on internal control of auditee's and accountability had a very high level of internal consistency.

4.6 Descriptive Statistics

The descriptive statistics of the dependent and independent variables are presented in table 4.4, below. As shown in the descriptive statistics table below, the total observation for each dependent and independent variable was 55. Minimum, maximum, mean and standard deviation for both dependent and independent variables were considered to summarize descriptive statistics.

Table 4.4 summary of descriptive statistics for the variables

Variables	N	Minimum	Maximum	Mean	Std. Deviation
Audit quality (Discretionary accrual)	55	0	2.52	0.7427	0.56453
Audit tenure in terms of years	55	2	5	4.09	0.752
Log(Audit Fee per audit engagement)	55	5	5.4	5.1786	0.11211
Number of staffs assigned per engagement	55	2	5	3.49	0.814
Accountability	55	4	5	4.4764	0.19048
Internal Control	55	3.8	4.8	4.2836	0.25149

Source: Field survey, 2020

From the summary of descriptive statistics in table 4.4 above, the average discretionary accrual of audit quality was 0.74 with minimum value of zero and maximum value 2.52. The standard deviation of discretionary accrual was 0.56, which indicates the variation of audit quality in the sampled private audit firms of Ethiopia. This indicates that the variation of audit quality among private audit firm's reports was moderate.

Regarding to audit tenure, the average value of audit tenure was 4.09 with a minimum of 2 years and maximum of 5 years which indicates that the average of external auditor holds audit clients was 4 years. This implies there is a long audit tenure between External auditors and audit clients. The standard deviation of audit tenure was 0.75 which indicates a highly Audi variation of audit tenure in the sampled private audit firms of Ethiopia.

The above table 4.4, also indicates the average value of Log (Audit fee) was 5.1786 with minimum value of 5 and maximum value of 5.4. The standard deviation of log (audit fee) was 0.11211. This indicates that there is no a high variation in audit fee charge of audit clients for the sampled private audit firms of Ethiopia.

The other variable included in the descriptive statistics table 4.4, is the number of staffs assignment per audit engagements. The mean value of staffs' assignment per audit engagement is 3.49 with a minimum of 2 staffs and maximum of 5 staffs. This indicates that the number of staff's assignment per audit engagement is on average 3 for the sampled private audit firms of Ethiopia. The standard deviation of this variable is 0.814 which implies that there is a large variation in staff's assignment on audit engagements between the sample private audit firms of Ethiopia.

A variable accountability is also included in the descriptive statistics as indicated in the above table 4.4. The respondents were requested to rate the accountability of external auditors on the given Likert scale range from 1 to 5 with that of 1 strongly disagree, 2 disagree, 3 Neutral, 4 agree and 5 strongly agree. The research questions included related to accountability in the research questionnaire are: confidentiality of working papers, report on significant weaknesses to management of the entity, Comment on adjusted or unadjusted errors on time, credible report on the fairness of financial statements to managements or shareholders, and confirmation of management representation letter before issuing audit reports and ensured that all important and relevant information has been disclosed by directors or senior officials. The researcher has transformed these Likert scale data into one variable for analysis purpose and the new created variable is accountability. Hence, as indicate in the table 4.3 the mean value of accountability is 4.4764 with minimum and maximum value of 4 and 5 respectively. This indicates that the respondents were agreed on accountability research questionnaires. The standard

deviation of the variable accountability was 0.19048 and implies that there were no high variation among the respondents response on accountability of external auditors.

The other variable include in the descriptive statistics 4.4, is internal control of auditee's. The respondents were requested to rate the internal control of auditee's on the given Likert scale range from 1 to 5 with that of 1 strongly disagree, 2 disagree, 3 Neutral, 4 agree and 5 strongly agree. The research questionnaires included related to internal control of auditee's in the research questionnaire are: 1) Audit client implements the designed segregation of duties and responsibility, (2) audit clients performs regular reconciliations of accounts to sub ledger/supporting detail, (3) audit clients performs Periodic observation of operational controls, (4) Security access control is provided to the appropriate staffs of audit clients, (5) Audit clients reviews the established limits periodically. The mean of internal control was 4.2836 with a minimum and maximum value of 3.8 and 4.8 respectively. This entails that respondents were agreed on the above-mentioned questionnaires of internal control of auditee's. The Standard Deviation of internal control is 0.25149 which indicates there were no high variations among respondents response on internal control of auditee's.

4.7 Diagnostics Tests of Classical Linear regression Model (CLRM)

Assumptions.

The classical linear regression model assumptions were discussed under research methodology. In this part the diagnostic tests were done based on the statistical results of the data.

4.7.1 Multicollinearity test

Multicollinearity (also collinearity) is a phenomenon by which one independent variable in a multiple regression model can be linearly predicted from the others independent variables with a substantial degree of accuracy. The presence of relationships among the independent variables with each other, then adding or removing independent variables from the equation of regression model could change the coefficients of other independent variables included in the model.

Multicollinearity is tested by the detection mechanism of variance inflated factor (VIF) and Pearson correlation matrix which shows the correlations exists between independent variables. According to Hair et al. (2006), the correlation coefficient below 0.9 may not cause serious multicollinearity problem. In addition, when the VIF is Below 10, there is no a problem of multicollinearity between independent variables.

Table: 4.5: Pearson correlation Coefficient matrix

Correlations	Audit tenure	Log (Audit Fee)	Number of staffs	Accountability	Internal Control
Audit tenure	1				
Log (Audit Fee)	0.128	1			
Number of staff assignment	0.803	0.016	1		
Accountability	0.571	-0.09	0.375	1	
Internal Control	0.605	-0.075	0.628	0.576	1

Source: Pearson correlation matrix, SPSS Version 25 output

As we observe from the above table 4.5, all variables has a correlation coefficient below 0.9, indicates that there is no a severe correlation among independent variables included in the model.

Table 4.6: Variance Inflation Factor (VIF)

Model		Collinearity Statistics	
		Tolerance	VIF
1	(Constant)		
	Audit tenure in terms of years	0.248	4.024
	Log(Audit Fee per audit engagement)	0.907	1.103
	Number of staffs assigned per engagement	0.285	3.506
	Accountability	0.516	1.939
	Internal Control	0.469	2.134

Source: VIF output of SPSS Version 25

As we seen from table 4.6 above, all variables has a Variance inflated factor (VIF) less than 10. Therefore, there is no correlation problem between the explanatory variables included in the model.

4.7.2 Test for Heteroscedasticity $\{E(ui^2) = \sigma^2\}$

The classical linear regression model (CLRM) assumption states that the variance of error term has to be constant across all observation. This constant variance is referred to as a homoscedastic error term. When there is variance in error terms among the observations, the assumptions of OLS estimator is violated and referred as heteroscedasticity. The presence of heteroscedasticity causes the standard errors wrong and the inferences made could be misleading.

Heteroscedasticity was tested by using Breusch-pagan test as indicated below. When the probability value of the Breusch-pagan value is higher than 0.05, there is no a problem of heteroscedasticity.

Table 4.7: Heteroscedasticity Test: Breusch-Pagan test summary

ANOVA						
Model		Sum of Squares	DF	Mean Square	F	Sig.
1	Regression	0.05	5	0.01	0.651	.662
	Residual	0.748	49	0.015		
	Total	0.798	54			

a. Dependent Variable: Res2

b. Predictors: (Constant), Internal Control of auditee's, Log(Audit Fee per audit engagement), Accountability, Number of staffs assigned per engagement, Audit tenure in terms of years

Source: heteroscedasticity output of SPSS Version 25

As shown in table 4.7, the Breusch-Pagan test gave a p-value of 66.2% which is higher of 5% percent level of significant. Since the p-values is 66.2% which higher of 5% percent level of significant, indicates that there were no significant evidence for the presence of heteroscedasticity at 5%, in this research model.

4.7.3 Test of Autocorrelation

The other assumption of classical linear regression model (CLRM) states that the error terms are uncorrelated with one another i.e. $\{cov(u_i, u_j) = 0 \text{ for } i \neq j\}$. When the errors are not uncorrelated with one another, it would be stated that they are “auto correlated” or “serially correlated”. Though the presence of autocorrelation may not cause OLS estimators biased, but the standard errors might be inefficient and biased. Hence this assumption has been tested by using Durbin Watson test. According to Durbin-Watson test when DW Value is two or near to two, indicates that there is no autocorrelation problem.

Table 4.8 Autocorrelation Test: Durbin-Watson test summary

R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
.924	0.853	0.839	0.22684	2.291

a. Predictors: (Constant), Internal Control, Log(Audit Fee per audit engagement), Accountability, Number of staffs assigned per engagement, Audit tenure in terms of years

b. Dependent Variable: Audit quality (Discretionary accrual)

Source: Autocorrelation test SPSS Version 25 output

As shown in table 4.8, the statistical value of Durbin-Watson (DW) is 2.291 which is close to 2. This indicates that the model is not suffer of serial correlation problem or autocorrelation.

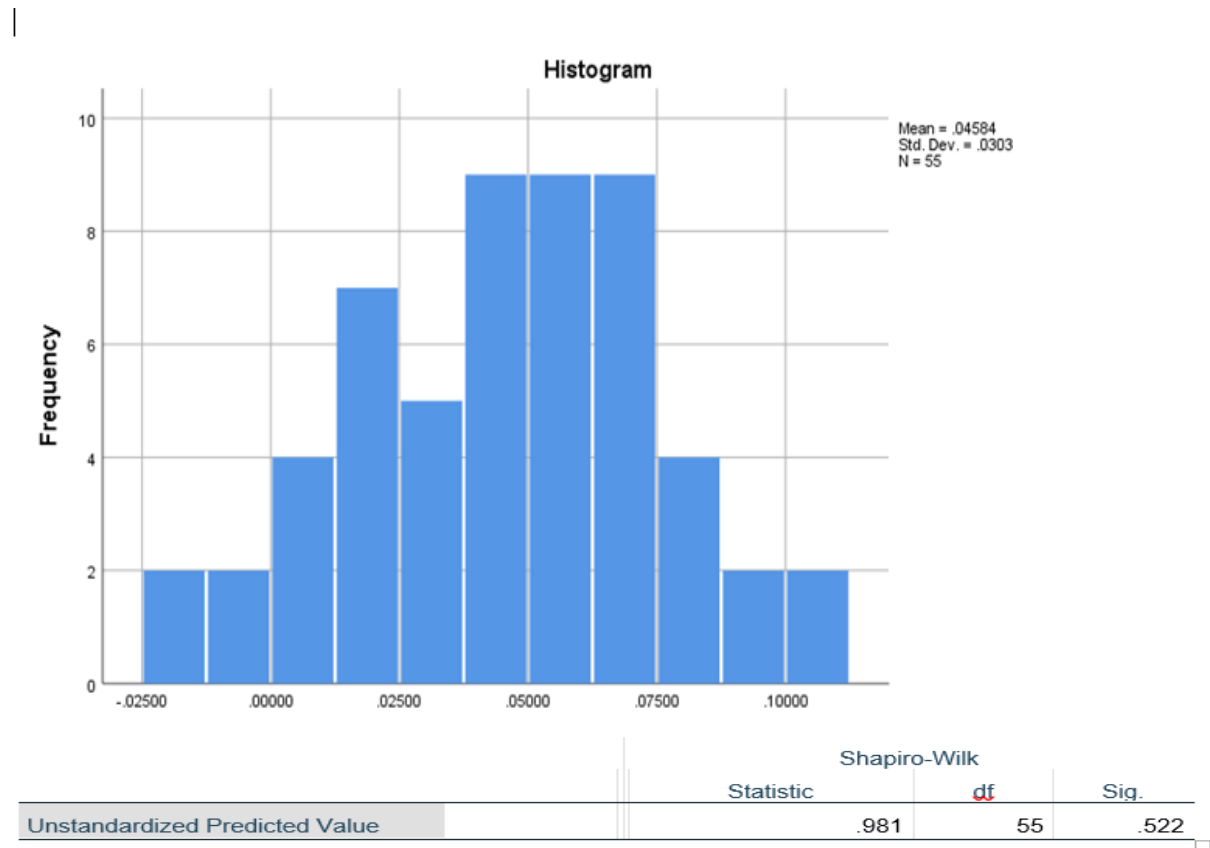
4.7.4 Zero Mean Error

According to Brooks (2008), when the regression equation includes constant term, the assumption zero mean error will never be violated. Hence, the regression model used in this study includes a constant term, and the assumption were not violated.

4.7.5 Normality Test

Neutrality testing is used to know that the independent and dependent data are normally distributed or residuals are normally distributed. According to Brooks (2014), if the residuals are normally distributed, the histogram should be bell-shaped, and also a normal distribution will have a coefficient of excess kurtosis of zero. One of the most commonly applied tests for normality is the Sharpo-Wilk test. So, as per Sharpo-Wilk test if the p-value of normality test is greater than 5% the data is assumed normally distributed. Therefore, normality of the data has been tested by using Sharpo-Wilk test

Figure 4.1 Normality test



Source: Survey data, 2020

As we observe from the above Figure 4.1, the distribution of data is symmetric to its mean. Furthermore, the Shapiro-wilk statistic has a P-value of 0.522 indicates that the value is greater than 0.05. This shows that there is no problem of normality in the data. As a result, the inferences made on the population parameters. Therefore, the inferences made from the sample parameters to the population parameters were valid.

4.8 Regression Analysis

Linear Multiple Regression analysis was used to explain the relationship between audit quality and its determinant factors taking the private audit firms of Ethiopia. The results obtained from SPSS Version 25 are presented and discussed as follows

4.8.1 Model Summary

Table 4.9: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.924 ^a	.853	.839	.22684

a. Predictors: (Constant), Internal Control, Log(Audit Fee per audit engagement), Accountability, Number of staffs assignment per audit engagement, Audit tenure in terms of years

b. Dependent Variable: Audit quality (Discretionary accrual)

Source: field survey, 2020

The coefficient of determination (R Square) is used to test the goodness-of-fit of the model. That is, R Square measures the proportion or percentage of the total variation in the dependent variable explained by the independent variable. The value of R Square lie between 0 and 1 and if R Square value is 1 the there is a perfect fit while R Square value 0 indicates that there is no relationship between dependent and independent variables. The five independent variables that were studied, explain only 83.9% of audit quality as represented by the R^2 . This therefore means that other factors affecting financial performance not studied in this research add up to 16.1%.

4.8.2 Analysis of Variance

Analysis of Variance (ANOVA) was done to verify the goodness of fit of the regression model. The regression model recorded a significance level of 0.0%. This implies that the model had goodness of fit and was very ideal for determining how audit tenure, audit fee, internal control of auditee's, accountability of external auditors and Number of staff assignment per audit engagement affects audit quality in private audit firms of Ethiopia. This is because the regression model had a significance value (p-value) of less than 5% and an F value (57.09) is greater than the F-Critical Value (2.561).

Table 4.10: Analysis of Variance (ANOVA)

ANOVA ^a Model	Sum of Squares	DF	Mean Square	F	Sig.
Regression	14.688	5	2.938	57.09	.000b
Residual	2.521	49	0.051		
Total	17.21	54			

a. Dependent Variable: Audit quality (Discretionary accrual)

b. Predictors: (Constant), Internal Control, Log(Audit Fee per audit engagement), Accountability, Number of staffs assigned per engagement, Audit tenure in terms of years

F-Critical Value = 2.561

Source: ANOVA analysis, SPSS Version 25 output

4.8.3 Regression Coefficients

The regression coefficients revealed that at 95% confidence level, audit tenure, internal control of auditee's, accountability of external auditors, and number of staffs assigned per audit engagement had a positive effect on audit quality. While, log audit fee has a negative impact on audit quality.

Table 4.11: Regression Coefficients**Coefficients^a**

Model		Unstandardized Coefficients		Standardized Coefficients	t-statistics	P-value
		B	Std. Error	Beta		
1	(Constant)	-5.165	1.873		-2.758	0.008
	Audit tenure	0.251	0.082	0.335	3.051	0.004
	Log(Audit Fee)	-0.014	0.289	-0.003	-0.048	0.962
	Internal control	0.56	0.179	0.249	3.121	0.003
	Accountability	0.373	0.226	0.126	1.654	0.104
	Number of staffs assignment	0.253	0.071	0.365	3.566	0.001

Dependent Variable: Audit quality (Discretionary accrual)_a

T-Critical Value = 1.96

Source: linear regression, SPSS Version 25 output

Multiple regression analysis was conducted as to determine the relationship between dependent variable audit quality and the five determinant factors i.e. audit tenure, audit fee, internal control of auditee's, accountability of external auditors, and number of staff assignment per audit engagements in private audit firms of Ethiopia.

As per the SPSS version 25 generated table above, the equation ($Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \beta_5X_5 + \varepsilon$) becomes:

$$Y = -5.165 + 0.251X_1 - 0.014X_2 + 0.56X_3 + 0.373X_4 + 0.255X_5 + \varepsilon$$

Where:

Y – Audit quality (Dependent variable)

X1- X5 – The independent variables

X1- Audit tenure in year

X2- Log audit fee per audit engagement

X3- Internal control of auditee's

X4- Accountability of external auditors

X5- Number of staffs assignment per audit engagement

4.9. Hypotheses Testing

4.9.1 Audit tenure

Hypothesis 1: Audit tenure significantly influences audit quality

From table 4.11, we observe that the coefficient of audit tenure is 0.251 and P-value is 0.004. Hence, the coefficient is positive and p-value 0.004 is below the statistically significant level of 5%. As a result we concludes that audit tenure has a statistically significant positive influence on audit quality of private audit firms in Ethiopia. Accordingly, the result failed to reject the working hypotheses a statistically significant influence exists between audit tenure and audit quality. This indicates that when there is a long audit tenure between audit firms and audit clients, the learning curve of external auditors increase to detect management's abnormal accruals of managements earning on financial statements. This finding is also consistent with the findings of Chi, Haung, Liao and Xie (2009), that long audit tenure has a positive effect on audit quality. This finding also supports that of Palmrose (1987), Stice (1991), Carcello and Nagy (2004), and Meyers et al. (2003) that audit tenure has a positive impact on audit quality. But as the length of audit tenure increases it may compromise the independence of auditors and which in turn could affect audit quality.

4.9.2 Audit fee

Hypothesis 2: Audit fee significantly influences audit quality.

The regression result table 4.11, shows log audit fee with a coefficient of -0.014 and p-value 0.962. As we observe, the p-value of log audit fee 0.962 which is higher than the statistically significant level of 5%. So, we can conclude that audit fee has not a statistically significance influences on audit quality, though the coefficient is negative.

The finding supports that of Chaney, Jeter and Shivakumar (2004) that they were unable to find a significant influence of audit fee on audit quality.

4.9.3 Internal Control

Hypothesis 3: Internal control of auditee's significantly influences audit quality.

The other interesting variable included in the above regression table 4.11, is internal control with a coefficient of 0.56 and p-value 0.003. Since the p-value 0.003 (0.03%) is below the statistically significant level of 5%, we can conclude that internal control of auditee's has a statistically significant influence on audit quality. In addition, the coefficient is positive which indicates that internal control of auditee's has a positive influence on audit quality. As result, the finding supported the working hypothesis that a statistically significant influence exists between audit client's internal control and audit quality. This is due to good internal control system of auditee's could mitigates management intentionally accrual of earnings, frauds, errors. As a result, the presence of internal control enhances audit clients to produce a trustworthy financial statements and this could increase the confidence of external auditors to report a credible audit report. The finding of the study is against Husam Al-Khaddash (2013), that internal control system does not affect auditing quality in the Jordanian banking sectors.

4.9.4 Accountability

Hypothesis 4: Accountability significantly influences audit quality.

According to table 4.11, the regression result shows accountability with a coefficient 0.373 and p-value 0.104. Hence, accountability has positively and statistically insignificant influence on audit quality in private audit firms of Ethiopia. This is due to P-value 0.104 (10.4%) is higher of the statistically significant level of 5%. Although many studies conclude that there is a statistically significant positive relationship between auditor's accountability and audit quality, the finding of this research fail to support their findings. Findings of Narayan (1994), Acemoglu and Geitzman (1997), Mlumad and Thoman (1990), Taylor and Simon (2001), Dye (1993), Free (1999) conclude that there is a statistically significant positive relationship between auditor's accountability and audit quality.

4.9.5 Number of Staff Assignment per audit engagement

Hypothesis 5: Number of staff assignment per audit engagements significantly influences audit quality.

From Table 4.11, we also observe another interesting variable number of staff assignment per audit engagement with a coefficient of 0.253 and p-value 0.001. As we see the p-value is below the statistically significant level of 5% and the coefficient is positive. As a result, we can conclude and support the working hypothesis number of staff assignment per engagement significantly influences audit quality. This is due to increasing the number of staffs in audit engagements helps external auditors to achieve audit deadline dates, risks associated with accrual of management earning is detected, and quality working papers are done with a good teamwork and discussions among the audit teams. This result is consistent with the findings of Sarowar Hossain (2013), states that there is a positive association between audit quality and the number of accounting professionals on an audit team.

Although assigning more staffs in audit engagements has a significantly positive impact on audit quality, it may cause private audit firms to incur additional costs like per diem costs and other accommodations. As a result, the audit fee recovery from such audit engagement might be low.

CHAPTER FIVE

5. SUMMARY, CONCLUSION AND RECOMMENDATION

5.1. Introduction

In chapter four data collected from questionnaire, interviews and secondary sources has presented, analyzed, discussed and interpreted. This chapter presents the overall overviews of the research summary of findings, conclusions arrived at or derived from the data, as well as limitations observed or experienced during the study. The chapter also delivers recommendations and suggestions for further research aimed at determinants of audit quality.

5.2. Summary of Major Findings

Audit quality is defined as the possibility of external auditor's capability of discovering errors, frauds and material misstatements of financial statements obtained from accounting information system and report to the users of financial statements. High audit quality is characterized by providing of a factual and credible financial information to its users. There are different views about audit quality, but the most accepted definitions is the one provided by DeAngelo (1981, P.186). She defines audit quality as: "The market-assessed joint probability that a given auditor will both detect material misstatements in the client's financial statements and report the material misstatements".

The benefit of keeping audit quality is for stake holders, shareholders, government bodies, investors as well as other users of financial statements. The significance of audit quality to audit clients are mitigates the conflict of interests between managements and shareholder, detection of significant risks, detection on internal control weakness and recommends to the management to give attentions on time. On the other hand, for external users of financial statements audit quality increases investors' confidence, increases the credibility and reliability of financial statements, reduces the risk of information asymmetry by empirically confirming the validity of financial statements, increases the efficiency of capital markets by optimize resource allocation. Finally a factual audit report is needed by users of financial information such as shareholders,

management, creditors, potential investors and creditors, labor organizations, and tax office.

The purpose of the study was to examine the determinants of audit quality by considering the explanatory variable audit tenure, audit fee, internal control of auditee's, accountability of external auditors, and number of staffs assigned per audit engagement in private audit firms of Ethiopia. The basic research question of this study was “do internal control of auditee and number of staffs assignment per engagement have influence on audit quality?”.

The overall objective the study was achieved by using both quantitative and qualitative data collected through interview, self-administered questionnaires, and structured reviews of documents from the sample of fifty-five private audit firms of Ethiopia. The collected data were analyzed by using SPSS Version 25. The study used descriptive and inferential data analysis techniques. Under the descriptive statistics means and standard deviation for the all variables included in the study were discussed and analyzed. The variables included in the study are audit quality, audit tenure, audit fee, internal control of auditee's, accountability of external auditors and number of staff assignment per audit engagements. The descriptive analysis helps the study to define the relevant characteristics of the phenomena under consideration and provide detailed information about each relevant variable. Cross-sectional data is used for the analysis of inferential statistics. Hence, inferential statistics are used to draw relevant conclusions based on the coefficient of explanatory variables audit tenure, audit fee, internal control of auditee's, accountability of external auditors and number of staff's assignment per audit engagements.

Linear regression analysis was employed to analyze the impact of five explanatory variables and the dependent variable. The goodness fit of the model or R^2 was 83.9%. This indicates that the explanatory variables included in the model explains the dependent variable audit quality around 84%. Classical linear regression model was tested and it showed that the data fit the basic desired characteristics of classical linear regression model (CLRMs). The working hypothesis were tested based on the results of regression coefficients obtained from SPSS Version 25. The results of the study was as bellows.

Table 5.1: Summary of actual and expected signs of explanatory variables on the dependent variables

Explanatory variables	Expected impact on audit quality	Actual impacts
Audit tenure	Statistically significance	Statistically significance and positive
Audit fee	Statistically significance	Statistically insignificant and negative
Internal control	Statistically significance	Statistically significance and positive
Accountability	Statistically significance	Statistically insignificant and positive
Number of staff assignment	Statistically significance	Statistically significance and positive

Note: significance level is in statistically

5.3. Conclusion of the study

The basic objective of this study was to determine whether internal control of auditee's and number of staffs assignment per audit engagements have influence on the quality of audits done by private audit firms of Ethiopia. Besides, it tried to determine the influence of audit tenure, audit fee and accountability on the quality of audits done by private bank of Ethiopia. With regard to the basic objective we found that internal control of auditee's and number of staffs assignment have a statistically significance positive influence on audit quality.

- ❖ The study concludes that audit tenure has a statistically significance positive impact on audit quality in private audit firms of Ethiopia. This indicates that when there is a long audit tenure between audit firms and audit clients, the learning curve of external auditors increase to detect management's abnormal accruals of managements earning on financial statements.

- ❖ The study also concludes that audit fee has not a statistically significance impact on audit quality in private audit firms of Ethiopia. Hence, in Ethiopia the amount of audit fee paid per audit engagements does not affect the quality of audit.
- ❖ The study also concludes that internal control of auditee's has a statistically significance positive impact on audit quality in private audit firms of Ethiopia. This is due to good internal control system of auditee could mitigate management intentionally accrual of earnings, frauds, errors. As a result, the presence of internal control enhances audit clients to produce trustworthy financial statements and this could increase the confidence of external auditors to report a credible audit reports.
- ❖ The study also concludes that accountability of external auditors has not a statistically significance impact on audit quality in private audit firms of Ethiopia.
- ❖ The study also concludes that number of staff assignment per audit engagements has a statistically significance positive impact on audit quality in private audit firms of Ethiopia. This is due to as the number of staffs increase in audit engagements budget time achieved on time, risks of misstatements are identified like accruals of management earning, and integrated work is performed with a good teamwork and discussions among the audit teams. This teamwork and discussions among the audit teams enhances to identify risks associated with the accounts, to identify relevant audit assertions and audit procedures. Hence this enhanced the team to achieve audit quality.

5.4 Recommendations of the study

The following recommendations are made to private audit firms, audited companies' managements and shareholders based on findings of the research:

- The study recommends private audit firms of Ethiopia to know that number of staffs' assignment per audit engagement is an important factor to achieve audit quality. Hence, private audit firm of Ethiopia shall to assign more number of staffs in audit engagements to achieve a high quality audit work.

- The study also recommends private audit firms of Ethiopia to know that strong internal control of audit clients is a vital input for external auditors' work and enhances to achieve audit quality. In addition, the study recommends external private auditors to test internal controls of auditee's rather than spending much time on substantive tests or vouching. Such internal control tests include design and implementations as well as the operative effectiveness of internal controls. Strong internal control of auditee's increases audit quality.
- The study also recommends to both managements and shareholders of the company that a long audit tenure in years between audit clients and external private audit firms has a positive effect on audit quality. Hence, as length of audit tenure increase external auditors would have more aware to detect management's abnormal accruals of earning, frauds and errors on financial statements. Therefore, this would enhance audit quality and both the service provider (private audit firms) and service receiver (auditees) would be benefited. The study also recommends the shareholders of the company to not frequently rotate auditors because audit tenure increase audit quality.
- The study also recommends managements/shareholders of the company that high audit fee payments to external auditors is not a guarantee audit quality. Besides, private audit firms of Ethiopia have to know that low or high audit fee charge is not the means to achieve audit quality.
- The study also recommends the Accounting and Auditing Board of Ethiopia (AABE) to formulate policies and strategies on audit quality based on the empirical evidences obtained from this study.

5.5 Suggestions for further studies

The following suggestions are provided based on the insights of the researcher:

- Studies made on determinant factors of audit quality is a controversial topic. The findings from the existing literatures are inconsistent and inconclusive, hence future researchers should work their studies on this topic and shall add a value to the existing literatures.

- Although very important factors have been included in this study, future researchers could add other important variables in the model and it will be very interesting to study determinants of external audit quality in the case of private audit firms of Ethiopia.
- The researcher also suggests future researcher's to study the impact of AABE reviewing working papers on audit quality in case of Ethiopia private audit firms

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APPENDIXS

Appendix I: QUESTIONNAIRE FOR RESPONDENTS

ADDIS ABABA UNIVERSITY

COLLEGE OF BUSINESS AND ECONOMICS

DEPARTMENT OF ACCOUNTING AND FINANCE

Questionnaires for partial fulfillment of Masters of Degree in Accounting and Finance

Dear respondent,

I would like to express my gratitude for your kind and willingness to participate in this study. Your response is a very valuable input for completing a study in partial fulfillment of Master of Science (MSc) Degree in Accounting and Finance in Addis Ababa University. The aim of this questionnaire is only to support the analyses of determinants of external audit quality in private audit firms operating in Ethiopia. The questionnaires will take 10 to 15 minutes.

I would like to assure you that the information you provided will be kept confidential and used only for the purpose of completing a study to achieve an academic award.

Thank you for your contribution.

With Kind Regards,

Gebre Ayinadis

Contact address: gebreayinadis61@gmail.com

Phone: 0923555661

Part 1: General information

1. Your gender. (Please tick in the appropriate box provided).

Male ☐

Female ☐

2. Your highest Qualification. (Please tick in the appropriate box provided).

Diploma ☐

BA Degree ☐

Masters ☐

PHD ☐

Any Other _____

3. Your Membership of international professional association. (Please tick in the appropriate box provided).

ACCA ☐

CPA ☐

Partially qualified (ACCA Diploma) ☐

None ☐

4. Your current position. (Please tick in the appropriate box provided).

Senior Auditor ☐

Manager ☐

Audit Director ☐

Partner ☐

Any Other _____

5. Years of experience as external Auditor. (Please tick in the appropriate box provided).

Less than 3 year ☐

3 to 5 years ☐

6 to 10 Years ☐

More than10 years ☐

Part 2: Determinants of External audit quality

- ✓ There are list of items which deal with respondents view on determinants of audit quality in private audit firms of Ethiopia. These item will explore respondents view on determinants of Audit quality, so please tick your responses in the appropriate box provided.

S/N	Items	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
I. Internal control						
1	Audit client implements the designed segregation of duties and responsibility.					
2	Audit clients performs regular reconciliations of accounts to sub ledger/supporting detail.					
3	Audit clients performs Periodic observation of operational controls.					
4	Security access control is provided to the appropriate staffs of audit clients.					
5	Audit clients reviews the established limits periodically.					
II. Accountability						
6	The working papers from the engagements are kept confidential and not available to any external body's request except the regulatory review of AABE					
7	Significance weaknesses on companies system or other					

	business matters are reported to managements.					
8	Adjusted or unadjusted errors in the financial statements or on accounting policies and practices are commented on time.					
9	A credible report on the fairness of financial statements are reported to managements or shareholders.					
10	Management representation letter is confirmed before issuing audit report and ensured that all important and relevant information has been disclosed by directors or senior officials					

Interview questions

I. Audit fee

10. What amount of audit fee (in Birr) on average does your company charge audit clients for a financial statement audit?

II. Audit tenure

11. On the average, for how many years does your company hold an audit client?

III. Number of Staffs Assigned per audit engagement

12. How many number of staffs on average does your company assign in a single financial audit engagements?