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The Current Status of Professional Ethics and Independence of Private
Audit Firms Engaged in Ethiopia and Its Overall Impact on Audit
Quality

By

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Addis Ababa University College of Business and
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The Current Status of Professional Ethics and Independence of
Private Audit Firms Engaged in Ethiopia and Its Overall Impact
on Audit Quality

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Thesis submitted to Addis Ababa University College of Business and Economics,
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Statement of Declaration

I, Yonas Fekede, have carried out independently a research work on the topic entitled “The Current Status of Professional Ethics and Independence of Private Audit Firms Engaged in Ethiopia and Its Overall Impact on Audit Quality” in partial fulfillment of the requirement of the MSc program in Accounting and Finance with the guidance and support of the research advisor. This study is my own work that has not been submitted for any degree or diploma program in this or any other institutions.

Yonas Fekede
May 2015

Statement of Certification

This is to certify that Yonas Fekede has carried out his research work on the topic entitled “The Current Status of Professional Ethics and Independence of Private Audit Firms Engaged in Ethiopia and Its Overall Impact on Audit Quality” under my supervision. This work is original in nature and it is sufficient for submission for the partial fulfillment for the award of MSc in Accounting and Finance.

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Date _____

Abstract

Professional ethics and independence of an auditor has been considered as one of the main elements for the auditing environment and auditing professional bodies like the International Federation of Accountants (IFAC,). The main objective of this study is to examine the current status of private audit firms' professional ethics and independence and its overall impact on the quality of audit service provided to the public on 20 private audit firms selected based on stratified random sampling technique. The study used descriptive statistics to analyze the collected primary and secondary data using SPSS. The results of the research result indicate that most of the private audit firms do not comply with professional ethics and lack independence from their client. This non-compliance came from self-interest, self-review and familiarity threats which results from lower audit fee, poor client assessment before accepting new engagements, having family, financial and personal relationship with their clients. Moreover inactive and dormant contribution of the regulatory and professional association respectively also are other factors that contribute for unethical practice, lack of independence and lower audit quality provided by private audit firm. The study recommend private audit firms should provide their professional services to the public in compliance with the rules and regulations stated by the regulatory bodies, Accounting and Auditing Board of Ethiopia should prepare a well-organized code of professional conduct and ethics that strictly applied by all private audit, regulatory and professional bodies should set strong audit quality control, high standard audit practices and enforce all audit and other constructive recommendation stated under researcher paper.

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Abbreviations and Acronyms

ACCA	Association of Chartered Certified Accountants
AABE	The Accounting and Auditing Board of Ethiopia
ASC	Audit Services Corporation
ASE	Accounting Society of Ethiopia
CPD	Continuous Professional Development
ECX	Ethiopia Commodity Exchange
EEAA	Ethiopian External Auditor Association
EPAAA	Ethiopian Professional Association of Accountants and Auditors
FRC	The Financial Reporting Council
GAAP	Generally accepted accounting principles
IAASB	International Auditing and Assurance Standard Board
IAS	International Accounting Standard
IESBA	International Ethical Standard Board of Accountants
IFAC	International Federation of Accountants
IFRS	International Financial Reporting Standards
IIA-E	Institute of Internal Auditing- Ethiopia
IMF	International Monetary Fund
IPSAS	International Public Sectors Accounting Standards Board
ISA	International Standards on Auditing
ISQC	International Standard on Quality Control
ISSAI	The International Standards of Supreme Audit
NBE	National Bank of Ethiopia
NGO	Non-governmental Organizations
NSC	National Steering Committee
OFAG	Office of the Federal Auditor General
PCAOB	Public Company Accounting Oversight Board
ROSC	Reports on Observance of Standards and Codes
SME	Small and Medium Enterprises

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CHAPTER ONE

1. INTRODUCTION

The research examines the status of professional ethics of private audit firms engaged in Ethiopia and its overall effect on the quality of audit report. Audit code of Ethics is a comprehensive statement of the values and principles which should guide the daily work of auditors. Audit quality is a 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 main purpose of this chapter is to provide general information about the research and it is organized as follows. The first section presents the general background information of the research, the second section sets out statement of the problem, the third section puts the research questions of the study, and the fourth section outlines the objective of the research. The scope and limitation of the research presented in the fifth section, the sixth section outlines the significant of the research and it is followed by the seventh section about the organizations of the research

1.1. Background of the study

In today's economic and business environment, for the stakeholders of any organization, whether profit making, governmental or non-governmental organization, one of the major source of inputs to make critical business decision is financial information which is obtained from financial statements. Financial information can be derived from the process of financial accounting in which identification, recording, classification, aggregation and reporting of financial transaction in accordance with the applicable standard like International Accounting standards (IAS), International financial reporting standard (IFRS) and generally accepted accounting principles (GAAP) required by the country in which the organization operates. Financial statements should represent historical financial position of an entity to communicate an entity's economic resources or obligations at a point in time and its performance for specific period of time. According to International Accounting Standard (IAS 1) a complete set of financial statement should comprise, a statement of financial position as at the end of the period, a statement of comprehensive income for the period, a statement of profit or loss and other comprehensive income for the period, a statement of changes in equity for the period, a statement of cash flows for the period and notes, comprising a summary of significant accounting policies and other explanatory information.

Companies release their yearly financial information and make available to the public which is used as a primary source of information to make economic decision. The successfulness of the decision also depends on quality of information obtained from financial statements which should be accurate, reliable and fairly presented. In order to assure the quality, objectivity, integrity, reliability and credibility of financial information issued by companies; regulatory bodies require companies to audit their financial statement by independent public auditors before they release their financial statement to the public. However such a requirement is different from country to country. For instance, in Ethiopia according to the commercial code of Ethiopia 1960, Article 63 to 85 deal with the requirement for handling of book of account by any person or business organization carrying on trade. Article 368 to 387 of this commercial code Require business organization limited by shares to audit financial report by independent auditor before they issue the report to the public.

Moreover, the newly issued Ethiopian Government's Financial Reporting Proclamation 847/2014 Article 5 states that any company having public interest should prepare its financial statements according to International Financial Reporting Standard (IFRS), International Financial Reporting Standard for Small and Medium Enterprise (IFRS for SMEs) and have to get audited its financial statements before issuing to the public

According to the International Federation of Accountants (IFAC)'s definition of Auditing (assurance engagement), Auditing is the process in which a professional accountant (practitioner) expresses opinion to enhance the degree of confidence of the intended user of financial statement other than the responsible party on the outcomes of the evaluation of the subject matters (financial statement) against the criteria (applicable audit standards)

Auditing is a process for the accumulation and evaluation of information whether a company's financial statements are in compliance with established criteria and legislative requirement and confirm the information stated on the financial statement is materially correct and add value by forming an opinion which enhance the credibility of the information contained on the company's financial statement (International Auditing and Assurance Standard Board, 2009)

From the above definition, the main role and responsibility of auditors is not only to satisfy the needs of individual client or employer rather to keep and act on the interest of the public which

includes clients, creditors, governments, investors, the business and financial community, and others who rely on the objectivity and integrity of certified public accountants.

To effectively perform this public interest responsibility and maintains the public confidence , public accountants or audit firms should strictly follow all ethical standards and principles issued by International Ethical Standard Board of Accounts (IESBA) and other different professional bodies like Association of Chartered Certified Accountants (ACCA), Institute of Internal Auditing- Ethiopia (IIA-E),Ethiopian Professional Association of Accountants and Auditors (EPAAA) and the country's legislative bodies of the accounting and auditing profession which is Office of Federal Auditor General (OFAG).

James Fieser define Ethics as a field of moral philosophy which involves systematizing, defending, and recommending concepts of right and wrong behavior. Ethical philosophy is a sub branch of Axiology which comprises Ethics and Aesthetics both of which concerned with concepts of value. The term ethics itself derives from the Ancient Greek word “ethikos “, which is derived from the word ethos (habit, “custom”).(Fieser, Intranet Encyclopedia of Philosophy, 2010).

The concepts of ethics fall into three major categories Meta-ethics, normative ethics and applied ethics. Meta-ethics deals with the origin and meaning of ethical concepts. As compared to other branches of ethics it is less precisely defined area of moral philosophy. (Fieser, Intranet Encyclopedia of Philosophy, 2010)

The second branch of ethics, normative ethics, is the study of ethical action and investigates the set of questions that arise when considering how one ought to act, morally speaking. Normative ethics deals with moral standards that regulate right and wrong conduct which may involve articulating the good habits that we should acquire, the duties that we should follow, or the consequences of our behavior on others. Theories like virtue theory, duty theory and Consequentialist Theories are included under this category (Fieser, Intranet Encyclopedia of Philosophy, 2010).

The last type of ethics is applied ethics which is the analysis of specific, controversial moral issues and tries to apply ethical theory to real-life situations. This branch of ethics includes specialized

fields like engineering ethics, bioethics, geo-ethics, public service ethics and business or professional ethics.(Fieser, Intranet Encyclopedia of Philosophy, 2010).

Business ethics (professional ethics or corporate ethics) is a field of applied ethics which examines ethical principles and moral or ethical problems that arise in a business environment. It applies to all aspects of business conduct and is relevant to the conduct of individuals and entire organizations.

Auditing is a profession which provides an independent, objective assurance and consulting activity to add values and improve an organization operational performance. So, as a profession auditing has its own code of ethics. (Fieser, Intranet Encyclopedia of Philosophy, 2010).

Auditors' Code of Ethics is a system or code of behavior based on moral responsibility and obligation to explain how an auditor must behave. It is enacted as a guide for all audit personnel to enhance the performance and professionalism (El-Moukammal, 3rd quarter 2009) and helps to promote an ethical culture in the profession of auditing and provide guidance to auditors serving others.

The Code of Ethics for Professional Accountants, developed by the International Ethical Standards Board of Accounts (IESBA), is a comprehensive statement of the values and principles of ethical requirements for professional accountants that provides a conceptual framework for all professional accountants to ensure compliance with the five fundamental principles of professional ethics for professional accountants. These principles are integrity, objectivity, professional competence and due care, confidentiality, and professional behavior.

There are number of cases related to ethic on auditing that are known to have resulted in a huge financial loss due to unethical behavior which was contrary to the fundamental ethical standards. As an evidence, we can look at the case, The Enron scandal, which resulted in the bankruptcy of the Enron Corporation and dissolution of Arthur Anderson which was one on the five largest audit and accountancy partnership in the world in 2002. The main ethical issues raised under this scandal related to Arthur Anderson was a conflict of interest which resulted in self-interest, self-review,

familiarity and intimidation threats on the engagement made with Enron corporation.(Enron and world finance , 2006).

The Arthur Anderson served as both a consultant and independent auditor of the corporation and earned \$25 million in audit fee and \$27 million in consulting fee per year. These two amounts reflected on Anderson book around 27% of the total income. The auditor's methods were questioned as either being completed solely to receive its annual fees or for its lack of expertise in properly reviewing Enron's revenue recognition, special entities, derivatives, and other accounting practices.

In addition to the Enron case, Arthur Anderson has been alleged to had been involved in the fraudulent accounting and auditing of Sunbeam product, Waste management Inc, Asia Pulp & paper, the Baptist foundation of Arizona, world Com.(Fernandez, 2012). Subsequent to a number of violations of ethical standard on Enron and other company in the audit and accountancy environment, countries and professional bodies issued standards, regulations and laws. Sarbanes - Oxley issued on July 30, 2002 is one of the rules that came after the Enron scandal occurred. The Enron scandal in 2002 also lead to the establishment of Public company accounting oversight board and other accounting reforms was made.

In 2009 the OFAG issued Ethiopian Code of Ethics for Professional Accountants to be used by authorized auditors and accountants as basis in discharging their professional duties to the public. On December 4,2014, a new Financial reporting Proclamation No. 824/2014 issued by The House of Representative of Ethiopia to replace the previous proclamation 68-1997 and 669-2010 that was given a full authority and responsibility to OFAG for governing the accounting and auditing profession in Ethiopia. A new regulatory body entity independent from OFAG is under establishment as par regulation no 322/2014.

This paper has been assessing the current status of code of professional ethics and independence of private audit firms engaged in Ethiopia and the effect of unethical behavior and lack of independence on the quality of audit performed by those private firms. The Ethiopian government though Office of Federal Auditor general has prepared and issued Code of Ethics for Professional accountants in December 2009. The paper also identifies areas of ethical standards violated by

private audit firms and the root causes for the violation. It also shows how such unethical behaviors of private audit firm affect the quality of audit performed by them and the credibility of audited financial reporting issued by them.

1.2. Statement of the problem

The Office of Federal Auditor General (OFAG) and the International Federation of Accountants (IFAC) through the International Ethics Standards Board for Accountants (IESBA) are the two known standard setting bodies at local and international level. However the application and proper implementation of these standards by the private audit firms deteriorated from time to time.

International Ethics Standards Board for Accountants (IESBA) develop, adopt and implement a high-quality international ethics standards for accountants. As per section 100 Code of ethics of professional accountants issued by IESBA and the directive issued by Office of Auditor General of Ethiopia during 2009, “A distinguishing mark of the accountancy profession is its acceptance of responsibilities to act in the public interest and not exclusively to satisfy the needs of an individual client or employer”.(OFAG, Ethiopian Code of Ethics for professional Accountant , 2009).

According to the Ethiopian government Proclamation 669/2010, Article 5, one of the duties and responsibility of the office is to make an efforts in cooperation with concerned organs, to develop and strengthen accounting and audit profession. In addition to this, in cooperation with other concerned federal and regional offices, the office has a power and duties to make an efforts and take necessary measures for the development of the accounting and auditing profession and is on the right direction and then enforce to follow all the ethical standards issued by both local and international bodies. Moreover it has an authority to issue, renew, suspend and cancel certificates of competence of auditors and accountants who provide auditing and accounting services to the public.

Study made by World Bank “Reports on Observance of Standards and Codes (ROSC) “in 2007 indicates that due to broader duties and responsibility, OFAG was not able to properly implement its duties granted under the above article. As a result, except issuing and renewal of audit and accountancy license, the role of OFAG on implementation and follow up of code of ethics of

professional accountant and other ethics and audit practice related control in private audit firms became limited and reduced from time to time.(World Bank, 2007)

On the other side, the issue of noncompliance with code of professional ethics, lack of independence, issuing extremely very lower quality audit report, lack of respect for their profession, making unfair competition and promotion to get client between audit firms which is against OFAG, ACCA and other professional body code of professional ethics standard, lack of maintaining their responsibility to the public interest rather than satisfy their client interest and deteriorating the credibility and confidence of the public (both private and government stakeholder) on the audit report and other assurance service provided by private audit firms becomes the features of private audit firm.

The World Bank research and other study made by other researchers like Kaashun Golo and Deselagn Getie indicate that there is no any strong and organized accountancy and audit professional association to follow the work and activities of both audit and accountancy firms in Ethiopia. Even if there is some association like Ethiopian Professional Accounting and Auditing Association (EAPPP), Ethiopian External Auditor Association (EEAA) and Accounting society of Ethiopia (ASE) all of those professional associations are dormant, limited in capacity and not actively participating on the accounting and auditing profession.

When we look main users of audited financial statements, like banks, tax authority, Ethiopian Commodity exchange (EXC), Charities and civic society agency, creditors and other set their own selection criteria and monitoring mechanism for audit service acquired from the audit industry. For instance ECX requires its coffee exporter members to submit their audited financial statement prepared as per IFRS and audited by private audit firms that has acknowledged and included under short listed audit firms that fulfill its own requirement. This and other selection criteria set by users of financial statement may have resulted from lack of confidence on the work of private audit firms due to various reasons. From various reason that affect the confidence of public on private audit firms are unethical audit practice and lack of independence of audit firms.

As a result, it is difficult to say private audit firms operating in Ethiopia are following the application of fundamental code of professional ethic and are independent from their client when they provide their professional service to the public. On this ground, this research paper has been

made to assess whether private audit firms have followed all professional ethics of professional accountants and independence principles in their day to day activities and the effect of any unethical behavior reflected on the industry on the quality of audit service provided by those audit firms. Moreover, the study has been made to observe whether there are any changes made by OFGA and EPAAA on the above issues and the contribution of the new Financial Reporting Proclamation in order to control and maintain the code of conduct of professional accountants and monitoring the audit quality.

1.3. Research questions

In order to assess the current status of the code of professional ethics and independence of private audit firms engaged in Ethiopia and its overall impact on audit quality, the following research questions have been formulated to conduct the study in four categories

1. The status of code of professional ethics of auditor on private audit firms
 - 1.1 Are the fundamental ethical standard of auditing properly applied in the Ethiopian private audit firm industry?
 - 1.2 Which fundamental ethical standards are highly violated or not properly applied by such unethical practice the audit firms?
 - 1.3 Are private audit firm independent in mind and appearance from their client?
 - 1.4 Are private audit firm's having established systems or set a system to identify threats and safeguards related to those ethical standards and independence?
 - 1.5 What is the root cause for such application of unethical audit practice and lack of independence reflected on the current private audit firm industry?
- 2 The effect of unethical behavior of private audit firms on the quality of audit performed by them
 - 2.1 Are unethical acts of those private audit firms are directly impact on the auditing quality and its process?
 - 2.2 Can we say the current private audit environment of the country has a credible or give a good assurance to the user of audited financial statement?
 - 2.3 What is the level of public confidence on private audit firm assurance service?
 - 2.4 Which user of audited financial statement affects by such unethical audit practices?

- 3 The role of regulatory bodies and professional association on the implementation of professional ethics of auditors
 - 3.1 What is the role of OFAG, regulatory bodies, on implementation of code of Ethics on private audit firm?
 - 3.2 What is the role of EPAAA, Professional bodies of accounting and auditing on the implementation of code of Ethics on private audit firm?
- 4 What is the perception of private audit firms on the issuance of the new proclamation 847/2014 in relation to proper implementation of professional ethics and quality assurance service?

1.4. Research objectives

1.4.1 General objective

The general objective of this study is to assess the current status of code of professional ethics and independence of auditors for private audit firms engaged in Ethiopia and its overall effect on audit quality provided by them.

1.4.2 Specific objectives

The specific objective of the study has been

- 1) To identify fundamental principles of ethics that are highly violated by or those principles not properly implemented on the private audit firm environment.
- 2) To identify major type and source of threat reflected on private audit firms that affect them not to comply with principle of professional code of ethics and independence.
- 3) To show the existence of any possible safe-guards set by regulatory and/or professional body, working environment at firm and individual level in order to reduce the effect of any unethical behavior and lack of independence of private audit firms.
- 4) To show how the effect of unethical behavior of private audit firms reflected on the quality of audit and loss of credibility and confidence by the public
- 5) To suggest possible action and remedies expected from concerned bodies to solve unethical behaviors and audit practice reflected under private audit firm in the country.
- 6) To review the new financial reporting proclamation 847/2014 and related regulation 322/2014 to identify its input that the establishment and implementation of code of ethics on professional accountant and auditor

- 7) To give a base or initial points for further study on related issue by those bodies who interested to perform additional research on professional ethics of auditors.

1.5. Scope and limitations of the study

Under this section of the research the scope and limitation of that occurred during the research has been discuss in detail.

1.5.1 Scope of the study

This research assessed the current status of professional ethics and independence of private audit firms engaged in Ethiopia comparing with code of ethics for professional accountants issued by Office of Federal Auditor General (OFGA) and International Ethics Standard boards for accountants (IESBA) at local and international level respectively. Moreover it identified ethical issue that affect audit quality included under the framework of audit quality issued by International Auditing and Assurance Standard Board (IAASB), International Standard on Quality Control (ISQC) and other audit quality determinate which also related to code of professional ethics identified by other scholars of auditing.

The research focus on the context of private audit firms owned by individual practitioners and partnership that involved in audit and assurance service to the business sector, government owned enterprise and other international and local non-governmental organization. However, most of the time, this private audit firm does not provide their service to government or civil service organization whose budgets come from central government treasury.

The study has not include government owned audit firms Audit Service Corporation (ASC) and government organization auditors lead by OFAG itself. The reason for not including Audit Service Corporation under this study is that it is a government owned Audit Company. Moreover, the study does not include private authorized accountants engaged in Ethiopia.

The research also did not consider other issues related to the audit environments like overall standards of quality control on auditing, the application and implementation of auditing, reviewing and other assurance service principles and standards issued by International Auditing and

Assurance Standard Board (IAASB) and the effect of other non-ethical issues like providing non-assurance service on the quality of audit on the Ethiopian private auditing environment.

1.5.2 Limitations of the study

Due to broader scope and complexity of the issue, this research is limited to private audit firms, regulatory body which is OFAG and professional association of the audit environment EPAAA. The perception of other stakeholders in audit environment like the audit client, donors, banks, tax authority, Ethiopian Commodity exchange (EXC), Charities and civic society agency, creditors, national bank of Ethiopia and other stakeholders in the public are not considered under this research. Due to location factors private audit firms whose practicing license is granted by regional state government office of general auditor, the research also did not include the opinion and perception of those private audit firms located out of Addis Ababa.

1.6 Significance of the study

As discussed on the introductory section, the growth in social, economic and business environment of the country and the world is becoming more complex and dynamic. So to successfully manage and run such business, the stakeholder of the business environment should have made a well-informed business decision on day to day activity. To make a well informed business decision, manager, shareholder and other stakeholder should have reliable and accurate financial and non-financial information. In order to enhance the quality of information and get reasonable assurance on the financial report prepared by the managements of the company, shareholders assign an independent audit firm, who will be responsible to them and the public at large. Professional accountants have a duty to protect the interest of the public rather than satisfying the needs and demand of their clients .The study helps for the stakeholder of business environment to identify the level of responsibility of professional account and cross check whether they are discharging their responsibility as per the rules and regulation, the code of ethics for professional accountants and independence from the influence of their clients in order to produce a quality audit report.

The research paper can be an initial research for the regulatory and professional bodies to look the area of problems that lead private audit firms to act unethically and to improve their monitoring and follow up mechanisms to tackle the causes that lead them unethical.

1.7 Organization of the research

The research deals with the current status of professional ethics and independence of private audit firms and its overall effect on the quality of audit performed by them.

The structure of this study is as follows. The first chapter presents the introduction part of the paper from this chapter, the readers can gain a general understanding on the issues of professional ethics and independence of professional accountant and its effect on the quality of audit.

Chapter two presents the literature review. It consists the theoretical and empirical studies. Moreover, conclusion and knowledge gap related with the current study are included under this section.

Chapter three deals with the research design and methodology, which discusses how the research has been conducted. Under this chapter the rationality of each research approach was briefly discussed. In addition to this, the chapter also looks at the overall side of the population with its different features the sample size, methods of data collection and analysis techniques used under this research

Chapter four includes both data presentations and the analysis of the data collected. This chapter relates the research questions, objectives of the study, applied methodologies and the finding of the research.

The final chapter, chapter five provides conclusion and recommendations based on the whole study of the research. From this chapter, the readers will be able to understand either the research question or the purpose of the study met or not.

CHAPTER TWO

2. LITERATURE REVIEW

As stated on the above chapter the main objective of this research is to assess the current status of code of professional ethics and independence of auditors for private audit firms engaged in Ethiopia and its overall effect on audit quality provided by them. This chapter provide the readers an insight into different area of previous and existing literatures related to code of professional ethics and independence of professional accountant and audit quality variables that related to professional ethics and independence principles. This chapter will help the readers in understanding the concepts related to this study, along with developing their knowledge regarding what opinions different researchers and authors hold regarding the topic of research. Similarly, this chapter would help the authors of this study in a way that it will provide them with a platform on the basis of which they will proceed further

Literatures included under this chapter is based on the relevance and relationship with the research subject matters. Since the research is focus on code of professional ethics, independence and audit quality, it is discuss about the fundamental principles of professional ethics for professional accountant, auditors independence and the audit quality criteria that raised under professional ethics cab be included under this chapter.

This chapter tried to address the different types of fundamental principles of professional ethics, auditors independence, types of threat that affect fundamental principles of professional ethics and auditor independence, possible safeguard mechanisms that can be applied by regulatory and professional bodies level, working environment safeguard system that can set both firm and individual engagement level, determinate of audit quality that has also a relation with professional ethics and independence, empirical evidence on related to auditor ethics, independence and audit quality issues related having a relationship with ethics and independence.

2.1 The history and development of auditing.

Scholar and various professional association of accountant and auditing relate the evaluation of auditing with the Industrial Revolution and the resulting explosion in growth of business activity. This growth led to widespread adoption of auditing methods and standards and firms became aware of the need for mechanisms of fraud detection and financial accountability. Investors also become to increasingly rely upon financial reports as corporations began to participate in the stock market.

Auditing is a systematic process of objectively obtaining and evaluating evidence regarding assertions about economic actions and events to ascertain the degree of correspondence between those assertions and established criteria and communicating the results to interested users(American Accounting Association (Sarasota, 1973)

Auditing can be classified as Financial audit (External Auditors) that ensure that financial statements are accurate. Operational audit (Internal and Governmental Auditors) that helps to improve operational economy and Improve operational efficiency of an organization or company Compliance audit (Internal and Governmental Auditors) that ensure compliance with company and/or governmental rules and regulations and the last one is Forensic audit that made investigation and forensic activates of the company(American Accounting Association (Sarasota, 1973)

As per ISSAI 220, financial statement audit focuses on determining whether an entity's financial information is presented in accordance with the applicable financial reporting and regulatory framework (The International Standards of Supreme Audit (ISSAI)

In providing an opinion whether financial statements are fairly stated in accordance with the applicable accounting standards, the auditor should gathers evidence to determine whether the financial statement of the auditee company free from any material errors or misstatements.

Auditors are expected to provide reasonable assurance, but not absolute assurance, that the financial statements are presented fairly, in all material respects, and/or give a true and fair view in accordance with the financial reporting framework. The purpose of an audit is to provide an objective independent examination of the financial statements, which increases the value and

credibility of the financial statements produced by management, thus increase user confidence in the financial statement, reduce investor risk and consequently reduce the cost of capital of the preparer of the financial statements.

2.2 Auditing in Ethiopia

The development of accounting in Ethiopia appear early as the 3rd century A.D. during the Axumite Kingdom of the Nation as a form of keeping the record in various form (Dessalegn, 2009) According to Pro. Yohannes the modern accounting in Ethiopia started during the 1900 Emperor Menelik established Finance and treasury ministry which was to keep records of the King's treasury. The other issues is the development of public accounting in Ethiopian, begins when the British accounting firms like Price Waterhouse Peat & Co., established their branches in the Ethiopia around 1940(Yohannes Kinfu, 1990).

In 1944, Audit Commission was established by Proclamation no. 69/1944 the to examine and control of the accounts of the Ministry of Finance and was directly accountable to the Prime Minister and this proclamation was amended in 1946 though Pro 79/1946 that provided to centralize the audit and control of all government accounts in one department by establishing the audit and control office under the direction of the comptroller.(Senait, 2003), mentioned that, Articles 120 and 121 of the revised constitution of 1955 clearly conferred the rights and duties of auditing all ministries, departments, and agencies to the Auditor General, whose office was then established as a separate, independent entity that reported directly to the Emperor and to Parliament. This proclamation required the Auditor General to submit periodic reports to the Emperor and to Parliament on the financial operations of the government, and entitled the Auditor General to access all books and records pertaining to government accounts. Subsequently, the functions of the Auditor General were amended by decree No. 32 of 1958.In 1961, Office of the Auditor General (OAG) was established by proclamation no. 199/1961 this proclamation a greater authority than was provided by other proclamation issued before 1958(Yohannes Kinfu, 1990) moreover this proclamation has been revised in 1979 and 1987

The other significant change in the accounting and auditing professional is the development of the Commercial Code of Ethiopia in 1996, the code Article 368 requires the provision of accounting

and auditing for business companies limited by shares (Government of Ethiopia, Commercial Code of the Empire of Ethiopia, (Proclamation No. 166/1960), 1960). However the code contribution for the development of accounting and auditing due to it *not*: (a) specify the accounting standards to be followed in financial reporting; (b) define the qualifications of an auditor; (c) require compliance with professional standards on auditing; or (d) impose an audit requirement upon private limited companies with less than 20 members (World Bank, 2007).

In 1979, Proclamation No. 164/979 was issued to re-define the powers and duties of the Auditor General by giving additional responsibility for auditing mass organizations, development projects as well as conducting performance auditing. However due to lack of lack of qualified manpower and increased in public enterprise the Auditor general not capable to cover the audit of all these organization, as a result, in 1977, the Audit Services Corporation was established by proclamation No. 126 of 1977 to render audit services to production, distribution and service giving organizations of which the Government is the owner or majority shareholder

After overthrow of the military regime in 1991, the National Shengo issued proclamation No.13/1987 to establish the Office of the Auditor General of the people's Democratic Republic of Ethiopia. This proclamation was in effect until the country introduced the new Federal Government structure in 1994. Based on this constitutional provisions proclamation No. 68/1997 was enacted to establish the Office of the Federal Auditor General (OFAG) which gave the power and duty to undertake Financial and Performance audits (or cause to be audited) on accounts of the federal government offices and organizations, accounts involving budgetary subsidies and special grants extended by the Federal Government to Regional States. In addition to this activities OFAG has empowered to regulate the accounting and auditing profession include licensing of all auditors in the country, issuing a Code of Ethics for Professional Accountants, and taking disciplinary measures on proven acts of misconduct by professional accountants.(Government of Ethiopia, Establishment of Office of Federal Auditor General, 1997)

In 2010, Proclamation 669/201 was issued by House of Peoples' Representatives of the Federal Democratic Republic of Ethiopia; to amend the power, duties and responsivity of OFAG (The Government of Ethiopia, Federal Auditor General Establishment (Amendment) Proclamation 669/2010, 2010). Later at the end of December 2014, Financial Reporting Proclamation No

847/2014 was issued to shift the regulatory role of OFAG on accounting and auditing profession to the newly established board, Accounting and Auditing Board of Ethiopia(AABE) which was established by regulation no 322/2014(The Government of Ethiopia, Financial Reporting Proclamation No 847/2014, 2014)

2.3 The conceptual framework for code of ethics professional accountants

The Code of Ethics states principles and expectations governing behavior of individuals and organizations in the conduct of auditing. It describes the minimum requirements for conduct, and behavioral expectations rather than specific activities. Auditors' Code of Ethics is a system or code of behavior based on moral responsibility and obligation to explain how an auditor must behave. The purpose of Code of Ethics is to promote an ethical culture in the profession of auditing and provides guidance to Auditors serving others (IESBA, 2013)

Auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.(International Auditing and Assurance Standard Board, 2009)

As per the International Ethics Standards Board for Accountants (IESBA) standards issued on January 2011 and the code of ethics of professional accountant issued by the office of Federal Auditor general of Ethiopia, Any professional accountant should follow the fundamental principles of code of ethics of professional accountant though out his professional life(IESBA, 2013),(OFAG, Ethiopian Code of Ethics for professional Accountant , 2009)

The IESBA standard no 100.1 state that a distinguishing mark of the accountancy profession is its acceptance of the responsibility to act in the public interest. Therefore, a professional accountants' responsibility is not exclusively to satisfy the needs of an individual client or employer. When acting as the public interest a professional accountant should observe and comply with the code of ethics for its profession.

This code of ethics has three parts. Part A deals the fundamental principles of professional ethics for professional accountants. Part B illustrate how the conceptual framework is to be applied in specific situations. Part C applies to professional accountants in business.

2.4 Fundamental principles for code of ethics for professional accountant.

As per International Ethics Standards Board for Accountants(IESBA), professional accountant is required to comply with the following fundamental principles:

2.4.1 Integrity

A professional accountant should be straight forward and honest in all professional and business relationship.

2.4.2 Objectivity

A professional accountant should not allow bias, conflict of interest or undue influence of others to override professional or business judgments.

2.4.3 Professional competence and due care

A professional accountant has a continuing duty to maintain professional knowledge and skill at the level required to ensure that a client or employer receives competent professional services based on current developments in practice, legislation and techniques.

2.4.4 Confidentiality

A professional accountant should respect the confidentiality of information acquired as a result of professional and business relationships and should not disclose any such information to third parties without proper and specific authority unless there is a legal or professional right or duty to disclose.

2.4.5 Professional behavior

A professional accountant should comply with relevant laws and regulations and should avoid any action that discredits the profession.

As stated above, IESBA part B and C of the code of ethics of professional accountant deal with the conceptual framework of the code ethics of professional. The next section will deals with how professional accountant can identify the treat and safeguards that can be faced during their audit engagement.(IESBA, 2013)

2.5 Threats for fundamental principles of professional ethics and independence

Treats are broad range of circumstance, situation and relationship exist between the professional accountant and the client that can be affect the fundamental principles of code of ethics of professional accountants. (IESBA, 2013)

When a professional accountant identifies threats to compliance with the fundamental principles, they should be evaluate of those threats and determines that, they are not at an acceptable level, and whether appropriate safeguards are available and can be applied to eliminate the threats or reduce them to an acceptable level. IESBA stated that any type of source of treat can be fall on any of the following categories

2.5.1 Self-interest threat

Where an auditor is financially dependent on the audit client or where an auditor or someone closely associated with him has a financial or other interest in the audit client. The auditor also depends on the management of the company to secure its re appointment as auditor (Importance of Auditor Independence, 2014).

2.5.2 Self-review threat

The threat that a professional accountant will not appropriately evaluate the results of a previous judgment made or service performed by the professional accountant, or by another individual within the professional accountant's firm or employing organization, on which the accountant will rely when forming a judgment as part of providing a current service

2.5.3 Advocacy threat

The threat that a professional accountant will promote a client's or employer's position to the point that the professional accountant's objectivity is compromised.

2.5.4 Familiarity threat

The threat that due to a long or close relationship with a client or employer, a professional accountant will be too sympathetic to their interests or too accepting of their work.

2.5.5 Intimidation threat

The threat that a professional accountant will be deterred from acting objectively because of actual or perceived pressures, including attempts to exercise undue influence over the professional accountant.

2.6 Safeguards for threat of professional ethics and independence

IESBA define safeguards are actions or other measures that may eliminate threats or reduce them to an acceptable level. Safeguards of any potentials treat can be categories as Safeguards created by the profession, legislation or regulation which include Educational, training and experience requirements for entry into the profession, Continuing professional development requirements, Corporate governance regulations, Professional standards Professional or regulatory monitoring and disciplinary procedures. (IESBA, 2013)

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

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

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

- g) Timely communication of a firm's policies and procedures, including any changes to them, to all partners and professional staff, and appropriate training and education on such policies and procedures.
- h) Designating a member of senior management to be responsible for overseeing the adequate functioning of the firm's quality control system.
- i) Advising partners and professional staff of assurance clients' and related entities from which independence is required.

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

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

2.7 Sources of threats

Section B of the hand book of IESBA identify major source of threats for professional ethics and independence are discuss

1) Professional Appointment

- a) **Client acceptance:** An auditor should consider whether acceptance of a new client would create any threats to compliance with the fundamental principles. Where it is not possible to reduce the threats to an acceptable level, an auditor should not enter into the client relationship.

- b) **Engagement acceptance after client has been accepted:** Before accepting an engagement, the auditor should consider whether acceptance would create any threats to compliance with the fundamental principles.
 - c) **Changes in a professional appointment:** An auditor who is to replace an existing auditor should determine whether there are any professional reasons for not accepting the engagement.
- 2) **Conflicts of Interest:** An auditor should be alert to any circumstances that could pose a conflict of interest. A threat to objectivity or confidentiality may also be created when a professional accountant in public practice performs services for clients whose interests are in conflict or the clients are in dispute with each other in relation to the matter or transaction in question.
 - 3) **Second Opinions:** An auditor may be asked to give a second opinion on an entity that is not an existing client. There may be a threat to professional competence and due care in circumstances where the second opinion is not based on the same set of facts that were made available to the existing accountant or is based on inadequate evidence.
 - 4) **Fees and Other Types of Remuneration:** For professional accountant in public practice quoting whatever fee by itself is not unethical but the main issue relating to fees and remuneration if the quoted fee for the engagement is too low there may be a possibility of threat to professional competence and due care which resulted from enabling to perform the engagement as per the applicable technical and professional standard at that price. This is one of the main concerns of many private audit firms in Ethiopia and also affects the overall quality and process of the auditing for an engagement.
 - 5) **Marketing Professional Services** When an auditor solicits new work through marketing, there may be potential self-interest threats that affect compliance with professional behavior.
 - 6) **Gifts and Hospitality:** - an auditor, or an immediate or close family member, is offered gifts or hospitality from a client. If the value of these gifts or hospitality is insignificant. It may create a self-interest or familiarity threat to objectivity and it also occurs an intimidation threat to objectivity may from the possibility of such offers being made public.

- 7) **Custody of Client Assets** An auditor should not keep custody of client monies or any other assets unless permitted by law. Acceptance of client assets will result in a self-interest threat for both professional behavior and objectivity.
- 8) **Objectivity – All Services:** - an auditor should consider whether there are interests in, or relationships with, a client or directors, officers or employees.

2.8 Auditor Independence

Independence on assurance Engagements: - the intended users of the financial statements require that auditor to be independent from the assurance client. The auditor must be both independent in mind and independent in appearance. According to International Ethics Standards Board for Accountants (IESBA) section 290 and Ethiopian's code of professional accountant rule no 19 any professional accountant should be Independent from the audited entity and other outside interest groups. It is essential that auditors are independent and impartial, not only in fact or mind but also in appearance. (OFAG, Ethiopian Code of Ethics for professional Accountant , 2009)

Independence of Mind

The state of mind that permits the expression of a conclusion without being affected by influences that compromise professional judgment, thereby allowing an individual to act with integrity and exercise objectivity and professional skepticism.

Independence in Appearance

The avoidance of facts and circumstances that are so significant that a reasonable and informed third party would be likely to conclude, weighing all the specific facts and circumstances, that a firm's, or a member of the audit team's, integrity, objectivity or professional skepticism has been compromised.

2.8.1. Factors affect auditor independence

As per IESBA, independence is potentially affected by self-interest, self-review, advocacy, familiarity and intimidation threats. As per pwc article titled Independence: At the heart of who we are expressed Independence is about objectivity, skepticism and integrity. It is the hallmark of the audit profession, at the heart of audit culture and fundamental to everything we do. Our mandate to audit public companies is founded on our independence and professional competence. Independence is so essential to

public company audits, so there should be comprehensive and strict laws, regulations and professional standards to govern it. It is essential for both as firms and as individual's level. (PWC, 2012)

Audit independence refers to the ability of the external auditor to act with integrity and impartiality during his/her auditing functions. Public opinions about audit independence are based more on their perception of auditor independence than on actual independence. (Uchenna N, 2006)

The researcher identify around 20 variable that affect the independence of auditors some of them were non-audit services more than 50% of audit fees, audit fee is low compared to other auditors, competition for clients is high, auditors desire not to lose key client, risk of disciplinary action by association and government, risk of litigation against the auditor, client giving significant gifts to auditors, rotation of auditors every 3 years, auditing client more than 5 years, auditor performs non-audit services for client and auditors income depends on retention of a specific client.(Uchenna N, 2006)

The results show that economic dependence on the client, provision of non-audit services to the client, client giving significant gifts to auditors, and competition in the audit market are the major factors that impairs the perception of independence and that this is consistent among both groups of respondents. On the other hand, low audit fees, risk of punishment against the auditor, and lower audit fees as a proportion of the firm's total revenues are perceived to enhance auditor independence.(Uchenna N, 2006)

Ling Lin research identify four main threats to auditor independence are client importance, non-audit services, auditor tenure, and client's affiliation with CPA firms this threat also has on actual and perceived quality of audit and financial reports(Ling Lin, 2005)

2.9 Auditor violation and disciplinary process

Rule no 19 of the Ethiopian code of ethic for professional accountant's deals with the enforcement of the rule of conduct. As per the rule the Office of the Federal Auditor General is responsible for the enforcement of the ethical requirements described in this code of ethics and for taking appropriate disciplinary action until such time that a separate and competent body able to take on

this responsibility is established by the government of Ethiopia.(OFAG, Ethiopian Code of Ethics for professional Accountant , 2009).

The following three points are the basis to take a Disciplinary action

1. Failure to observe the required standard of professional care, skills or competence;
2. Non-compliance with Code of ethics; and
3. Discreditable or dishonorable conduct.

The disciplinary committee established by Federal Auditor General will ordinarily carry out the disciplinary proceedings. The proceedings should be held in a manner that is consistent with the legal requirements. This will ordinarily involve legal representation, taking evidence and keeping records of the proceedings. Based on such evidence the committee will made the following sanctions

1. Reprimand;
2. Fine;
3. Payment of costs arisen from the disciplinary proceeding
4. Suspension of Certificate of Competence; and
5. Withdrawal of Certificate of Competence;
6. Warning,
7. The refund of the fee charged to the client,
8. Additional education and the work to be completed by another professional accountant at the expense of the disciplined incumbent

2.10 Audit Quality

One of the objectives of the research is try to shows the effect of unethical behaviors of private audit firms on the quality of audit report issued by them.

Until now there is no universally agreed definition of audit quality and agreed measure or determinate of audit quality. Different researchers were made different definition for audit quality, the widely used definition used by most researcher has been De Angelo's (1981) definition of Audit quality. According to De Angelo definition, 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. (De Angelo, 1981)

According to his definition the main element of audit quality is.

1. **Auditor's capacity to identify material misstatement** on the client's accounting system and report. This is related to the professional competence of individual auditor or the audit firm which is one of the element the fundamental principle of Ethical Standards
2. **Reporting the error identified by the auditors in his audit report**, this is can be related with auditor independence, integrity, objectivity and professional behavior of the auditors.

The research made by Jueming Bing, Chu Xin Huang, Anqi Li and Xinyi Zhu also agree with for the lack of universally agreed definition and also agree with the definition of De Angelo as a direct definition and add the following indirect /Implied Definition of audit quality.(Jueming Chu Anqi Ainyi, 2014)

- a) Independence and competence related definition. The quality of audit is depends on the independence and competence of the audit firm
- b) Firm size and reputation related audit quality: this type of definition relate the quality of audit with size and reputation of the audit firm
- c) Earnings quality related definition: It related the quality of audit with the degree of earnings management and enhances the informativeness of financial reports and the make a positive relationship between audit quality and he quality of financial reporting, which can be proxies by earnings quality
- d) Regulations and inspection programs related definition. This definition of audit quality based on the definition suggested by IAASB on the basic elements and issued by IFCA on the framework of audit quality that consist of input, output and contextual factors.

2.10.1 Determinate of audit quality

Arezoo Aghaei research titled "Review of studies on audit quality" summarized the review of empirical studies made on audit quality determinate by different researcher including De Angelo research. He classified their studies on six main categories that has been used to define audit quality and factors that determine the audit quality. (Arezoo, 2011)

- 1) Direct and Indirect Measure of Audit Quality
 - a) Direct measures financial reporting compliance with GAAP, quality control review, bankruptcy, desk review and SEC performance
 - b) Indirect measures Like Audit firm size, tenure of auditors, multiple clients in the same industry, audit fee and economic dependences of auditors
- 2) Studies Based on Source of Differentiation Institutional differences across countries (cross country differences), Differences across individual practice offices (cross-city differences) and Differences due to industry specialization (Francis, 2004).
- 3) Studies Rely on Output, Process and Input: Based on Output (e.g. audit opinion), Audit Process (e.g. Audit environment, process performance, earning forecast and earning management) and Input (e.g. auditor Perception and compulsory audit tendering).
- 4) Organizational Aspects: Audit firm and Audit team
- 5) Behavioral Perspectives and Auditor Quality: The FRC argues that the skills, personal qualities of audit partners and staff, and the training given to audit personnel are important factors that determine auditor quality. So auditors' personality characteristics, auditors' professional characteristics, auditing firm's quality control and review procedures auditing firm structure and auditors' perceptions of time budget pressure. Are some of the determinate of audit quality?
- 6) Different Perception of Audit Quality Shareholders, Auditors, Analysts, and Audit Committee chair person, Preparers, Clients, Federal Inspectors and Financial Journalist of audit quality.

On Jueming Bing, Chu Xin Huang, Anqi Li, Xinyi Zhu research on 'Audit Quality Research Report' In addition to identify basis for the definition of audit quality, the researchers also identify twenty variables that can determine the quality of audit into five main category(Jueming Chu Anqi Ainyi, 2014)

1. Earnings quality: under this category there are seven variable that can be determine the audit quality meet or beat earnings targets, discretionary accruals, likelihood of restatement, likelihood of reporting a profit, likelihood of reporting a profit, timely loss recognition, standard deviation of residuals and earnings response coefficient.
2. Auditor characteristics: auditor reputation, auditor size/type, auditor skills and expertise, firm characteristics.

3. Independence: likelihood of issuing going concern report and audit opinion, audit fee and audit firm tenure.
4. Market perception: forecast accuracy and bid-ask spread
5. Other category: disciplinary sanctions, audit process, people's perception, avoidance of AICPA peer reviews and Public Company Accounting Oversight Board (PCAOB) inspections.

When we look those determinates used by different researcher to identify the factors affect the audit quality, most of these factors like, compliances with GAAP, quality control review, audit tenure, audit fee, independence audit input, personal skill, professional characteristics, audit tendering and others can be directly or indirectly included under source of treat that affect the professional ethical principles and independence of professional accountant specially integrity, objectivity, professional behavior and Professional competence and due care are the affected principles then this factors.

The paper also try to shows treat identify by IESBA and other scholar that can be affect fundamental principles of professional ethics can affect the audit of audit made by audit firm.

The financial Reporting Council (FRC) issued a summarized result of discuss paper titled "Promoting Audit Quality". The FRC identified the following drivers of audit quality and the treats to those drivers and collect comments on this drivers from different stakeholder like Accountancy firm, Professional bodies, investors corporate and others. (Financial Reporting Council, 2007)

- ✓ The culture within an audit firm;
- ✓ The skills and personal qualities of audit partners and staff;
- ✓ The effectiveness of the audit process;
- ✓ The reliability and usefulness of audit reporting; and
- ✓ Factors outside the control of auditors affecting audit quality

From output of the discussion paper, FRC acknowledged that there is no single agreed definition of audit quality that can be used as a 'standard' against which actual performance can be assessed. On December 2009, IAASB issue a pronouncement entitled "International Standard on Quality Control 1". The standard deal with on quality control that firms that apply when performing audits and review of financial statements and other assurance and related service engagement. Finally, on February 2014, IAASB develop a framework for audit quality to identify key elements that

create an environment for audit quality. A quality audit is likely to have been achieved by an engagement teams that

- ✓ Exhibited appropriate values, ethics and attitudes;
- ✓ Was sufficiently knowledgeable, skilled, and experienced and had sufficient time allocated to perform the audit work;
- ✓ Applied a rigorous audit process and quality control procedures that complied with law, regulation and applicable standards;
- ✓ Provided useful and timely reports; and
- ✓ Interacted appropriately with relevant stakeholders.

The framework also identify five factors that affect audit quality. This includes input factors, process factors, output factors, key interaction within the financial reporting supply chain and contextual factors. The framework analyzed the Input, process and output factors at engagement, firm and national level and from these factors input factors incorporate basics ethical issues that can be implemented by firm when performing audit and review engagement. (International Auditing and Assurance Standards, 2014)

The input factors of audit quality includes

- ✓ Exhibiting appropriate values, ethics and attitudes; and
- ✓ Being sufficiently knowledgeable, skilled, and experienced and having sufficient time allocated to them to perform the audit work.

2.11 Empirical Studies

There are arguments regarding to the impacts of extended audit tenure on auditors independence and audit quality. To understand this arguments, the researcher pointed out the following empirical evidences based on their relevance or importance for this study.

Oseni, Abubakar Idris conduct a study on unethical behavior by professional accountant in an organization, as per (Oseni, 2011). The ethical issues faced daily by organizations and their employees are neither always straightforward nor easy to resolve. The study focus on what factors influence the likelihood that an individual will act ethically or less than ethical, and what this means to management, the organization, and internal controls in general.

The researcher cover the fundamental principles of professional ethics, issues on ethical behavior, issue related to human rights, the challenge of ethical behavior in organizations, types of unethical behaviors by financial reporters, reasons for behaving unethically, the reason why unethical behavior occur in organizations monitoring unethical behavior and imposing penalty and how can promoting an ethical climate. Based on his research the ethical problems in organizations and the business environment is a great concern for the public, organizations, and individuals itself. (Oseni, 2011) recommend, accountant should be realistic in setting values and goals regarding employment relationships and do not promise what the organization cannot deliver, encourage input throughout the organization regarding appropriate ethical values and practices for(Etienne Chia-Ah and Joel Karlsson, 2010)implementing the cultures, use a whistle-blowing and/or ethical concerns procedure is established for internal problem solving and Provide ethics training programs for all employees.

Christopher Akpotu was issued a research on International Journal of Business and Management Invention on under the title “External Auditors’ Unethical Behavior and Corporate Business Failure in Public Owned Organizations in Nigeria”. The main objective of the research was to ascertain whether unethical practices of external auditors like Concealment of Fraud Collusion with Management Team Certification of Untrue and Unfair Account Lack of Professional Skills, Care & Diligence Tardiness in Discharging Duties have influenced corporate business failures. He was made a survey on eighteen (18) companies listed in the Stock Exchange of Nigeria and State

Centre for Alternative Investment was carried out through a self-administered structured questionnaire which was administered on strategically positioned personnel both in top and middle level positions of the firms.

His finding indicate that external auditors from have shown lack of concern for ethical practices when engaged in public organizations and this had in turn resulted to corporate failures. The researcher stated that some of the auditors engaged to undertake auditing do not necessarily have in focus the general expectation of agency theory that expects utility maximization and commitment to rules of the relationship. In addition, the lack of commitment is expressed in the level of tardiness in discharging their duties to the public organization

Finally he conclude that the correlation analysis showed the existence of external auditor's unethical practices concealment of fraud, collusion with management, certification of untrue and unfair accounts, lack of professional skills, care and diligence and tardiness in discharging duties are major unethical behavior all significantly reflected on external auditors theses practices' also results corporate business failure among public owned organizations. (Christopher Akpotu, 2013)

Bulletin

Another study also conducted by Semiu Babatunde and Temitope Olamide bulletin on Journal of Accounting and Taxation title "The perception of ethics in auditing profession in Nigeria" The purpose of the study was to provide evidence on ethics, legitimacy of auditing profession and the future outlook of the profession in Nigeria by obtaining responses from external auditors, industry and academic accountants as well as auditing students which help to improve the auditing profession in Nigeria from the perspectives of ethics. In order to achieve this aim, the researcher include three specific objectives which are investigate the credibility of the auditing profession, investigate the implication of accounting scandals on the auditing profession and finally examine whether any significant relationship exists among the perceptions of the respondent groups in their research.

Babatunde and Olamide use a survey design and distribute 200questioner to industry accountants, accountants in academics ,accounting students public and accountants (auditors) 50 questioner for each and used of statistical tools for population means, level of significance tests and analysis of variance to analyzed the data collected from primary sources.

The finding of the research as per the analysis of data shows that there is no significant difference in the perception of respondent groups on the need for auditors to abide by high ethical standard and the need to shape the views of new entrants to the profession. However, respondents have different perception on the decline of core values which attracted them to the profession. The study suggests that there is the need for the profession to gear its effort towards shaping the views of new entrants to the profession in Nigeria, ensure adherence and enforcement of high ethical standard. Regulation of the profession should be targeted towards restoring the confidence of users of financial statements in financial reporting in Nigeria. (Semiu Babatunde and Temitope Olamide, 2011)

In the context of Ethiopian there are few research made on Ethics of professional accountant and its effect on audit quality. Kassahun Gilo, define external auditor on Ethiopia context on the bulletin on Emerald Journal tittle “The General Concept of Auditing in Ethiopia “An independent auditor, also known as certified public accountant or external auditor, has no connection to the organization being audited. Independent auditor conducts the audit on a fee basis, and is primary responsible to third parties-creditors and shareholders. The type of audit carried out by an independent auditor is financial statement audit. In Ethiopia, the authorized auditors perform financial statement audit. In addition, the Audit service corporation a government—owned organization, performs financial statement audit. (Kassahun, 2010)

He identified around twenty issues related to the accounting and auditing profession of Ethiopia, some of the major deficiencies included under his research was, The accounting and auditing provisions in the Commercial Code 1960 outdated and need to be brought up to date with good international practice, There is no guidance for NGOs on the standards to be used in preparation and auditing of their financial statements in the General Guidelines, The number of professional accountants and auditors in Ethiopia is rather low in relation to the size of the economy, The Ethiopian Professional Association of Accountants and Auditors (EPAAA), has no legal backing and is not a member of International Federation of Accountants (IFAC), so the contribution for development of auditing and accounting profession is limited, Ethiopia does not have a quality assurance program for auditors as a result there is no any mechanism that ensures auditors conduct their duties with outmost professional diligence, The big-four international audit firm networks are

not present in the country this affect the auditing profession in the country is losing exposure of international expertise.

The country has not yet experienced litigation on financial reporting, there is neither professional accountancy qualifications nor training available for professional accountancy All professional accountants hold foreign professional qualifications from Association of Chartered Certified Accountants (ACCA). It is estimated that about 95 percent of the professional accountants in the country hold the ACCA qualification, however the fees are considered too expensive by the majority of Ethiopians moreover there is no domestic institution, which monitors and enforces Continuous Professional Development (CPD). There is no accounting and auditing standards set in Ethiopia, even if OFAG mandated to develop accounting and auditing standard, the office does not nothing for the professional rather than granting a license for authorized auditor and accountants, in addition to this private auditor issues their own standards which fit to conducting audits. (Kassahun, 2010)

Another research made by Dessalegn Getie titled “Accounting Professionalization Amidst Alternating State Ideology in Ethiopia” printed on Emerald journal. The paper examines accounting and auditing professionalization processes in the context of alternating state ideology in Ethiopia over the past century to identify how changes in the politico-economic milieu impacted on these processes. The study findings portrays, despite a lack of adequate impetus to establish viable indigenous accounting bodies, the professionization dynamics exhibited different patterns in three epochs in which Ethiopia had alternating state ideologies.

As the end Dessalegn recommends because there has been no legislation to enable aspiring professional associations to regulate the profession attempts to establish strong local professional accountancy bodies that could exercise professional monopoly achieved little success. Second the (Kothari, 2004)existing indigenous professional associations are not strong enough to define, own, and control a cognitive base that could enable the exercise of closure.so The state’s and professionals’ endeavors to establish a strong local professional association could be characterized as unilateral and sequential instead of coordinated and simultaneous.(Dessalegn, 2009)

On 2007, World Bank was made a research entitled “Report on The Observance of Standards and Codes (ROSC) Ethiopia Auditing and Accounting.” The research was made based on a review of corporate sector accounting, auditing, and financial reporting practices and supporting infrastructure in Ethiopia. The review revealed areas requiring improvement. There is no requirement for compliance with accounting and auditing standards both in the Commercial Code 1960 and other laws and regulations for specific sector entities. Some laws require compliance with generally accepted accounting principles and generally accepted auditing standards, but these terms are not defined.

The Ethiopian Professional Association of Accountants and Auditors (EPAAA) is not a professional certification or regulatory body, does not have legal backing and is not a member of the International Federation of Accountants (IFAC). The Office of the Federal Auditor General (OFAG) regulates the accountancy profession but has other broader responsibilities. There is no quality review of auditors’ work and no local legal requirement for auditors to have professional indemnity insurance. There is no local professional accountancy qualification. Enforcement mechanisms of financial reporting requirements are non-existent because of lack of capacity in regulatory institutions and the absence of penalties in the regulations.

The recommendations included under the report was Revise the Commercial Code 1960 and the other relevant laws and regulations, Enact a financial reporting law, Establish a National Accountants and Auditors Board, Set accounting standards, Mandate International Standards on Auditing (ISA) for all auditors, Establish a strong accountancy professional body, with IFAC membership, Establish a local professional and technician accountancy qualification, Enhance the capacity of all regulators to enable them to effectively discharge their responsibilities and to handle IFRS related issues in the regulation. And Conduct awareness campaigns and related programs. (World Bank, 2007)

2.12 Conclusion and Knowledge Gap

The examination of the review literature shows the accounting and auditing profession of Ethiopia has not get a proper attention by the government. The regulatory body which is OFAG assigned by the government also does not has made any effort for the development of the profession. Moreover the professional bodies exist in the country does not have enough capacity to play its role for the profession moreover this bodies doesn't have any support from the government side.

Moreover as explained in the empirical studies there is no any accounting and auditing standards that govern the accounting and auditing profession. The professions also doesn't have a well-established and designed professional code of conduct that consistent with other standards issued by international professional bodies like IESBA and others. Due to workload, professional competence and other reason, OFGA cannot able to fully meet the duties and responsibility empowered though Proclamation 68/1997 and 669/2010.

As a results of such problem the audit industry especially the private audit firm activities becomes out of full control of the regulatory bodies and unethical behavior reflected on increased from time to time and loss the confidence of public on the profession service provided by them. Moreover the quality of professional service deteriorated though time now become at lower level. There are no comprehensive studies that examine the status of professional ethics and independent of private audit firms and its overall effect on the quality of audit in the. Therefore the current study is tried to fill the gaps which are mentioned in the above.

CHAPTER THREE

3. Research Design and Methodology

This chapter deals with the methodology and design that was used in performing the research. This chapter describes and discusses the different steps of methodological assumptions used namely, choice of subject, research philosophy, perspective, research approach, research design, research design, data collection methods, sample selection, quality criteria and data analysis of the research.

3.1 Choice of subject

The main responsibility of auditors is fulfilling the interest of the public rather than limited to satisfying the needs and demands of their client. To discharge this responsibility, audit firms should strictly follow all professional ethics requirements and be independent in appearance and mind from client. Otherwise the possibility to be biased to the interests of the client and to affect the needs and expectations of other stakeholders of the client will be high.

The choice of subject has been based on the claims raised by the professional association, the principals of audit firms, audit client and other stakeholders of the audit industry on the ethical problems of private audit firms, lack of independence and related audit quality issues on the audit firms. This has attracted the researcher to assess the current status of professional ethics and independence of private audit firm and its overall effect on the quality of audit.

3.2 Research design

Research design is the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure. The research design is the conceptual structure within which the research is conducted; it constitutes the blueprint for the collection, measurement and analysis of data and outline of what the researcher will do from writing the hypothesis and its operational implications to the final analysis of data. (Kothari, 2004). Research design should indicate the various approaches to be used in solving the research problem, sources and information related to the problem and, time frame and the cost budget. (S. Rajasekar, 2013)

Under this study, the descriptive research design method has been used because the research aimed at investigating/evaluating behavioral aspects of private audit firms on the implementation of code of ethics and its impact on the quality of audit performed by them based on the research questions design.

3.3 Research approach

Under this research mixed approach (the combination of both qualitative and quantitative approach) is used to provide a detail information about the current statuses of code of professional ethics and its effect on audit quality. The reason for choosing qualitative approach is due to the aim of receiving in depth information regarding elements of code of ethics of professional accountants whether it is properly applied on the current audit environment by private audit firms and the effect of unethical behavior of audit firms on the quality of audit. The researcher used the benefits of a mixed methods approach by mitigating the bias in adopting only either quantitative or qualitative approach and to get the advantages of collecting both closed-ended quantitative data and open-ended qualitative data to best understand a research problem.

3.4 Type and source of data and data collection method

Under this section the type of data used for this research, the main source of data collection and data collection method are discussed.

3.4.1 Type and source of data

Identifying an appropriate source of data is the main determinant of carrying a successful research. Basically there are two sources of data that can be used to make a research which are primary sources of data and secondary sources of data (Kothari, 2004).

Under this research both primary and secondary data has been collected from various source like distributing questioner, publications on professional ethics of accountants' issues by professional association like ACCA AICPA and others Standard setting bodies, like OFAG, IESBA, ISAB, and others various research papers, articles and journals issued by researchers.

- a) Primary data has been collected from principals and/or audit managers of private audit firms included under the research sample through questionnaire. The primary data has been used to answer main objectives stated under this research paper
- b) Secondary data has been collected from publications on professional ethics of accountants' issues by OFAG and professional association like ACCA AICPA and others international standard setting bodies, like IESBA, ISSAB, research papers, articles and journals issued by world bank and other researchers like Kassahun Gilo, Dessalegn Getie and others proclamations on financial and auditing issued Ethiopian government in different eras. This secondary data has been used to address the role of regulatory and professional bodies on to solve unethical behaviors and independence problems reflected under private audit firm in the country and the expectation of private audit firms on the new Ethiopian government financial reporting proclamation

3.4.2 Data collection

The questionnaire used under this research included both open ended and close ended questions and it has been distributed to the selected sample private audit firm to obtain their answers for the questions. The main reason to select a questionnaire is that it helps to get a clear picture on the current situation of professional ethics of the audit environment and the quality of audit performed by private audit firms.

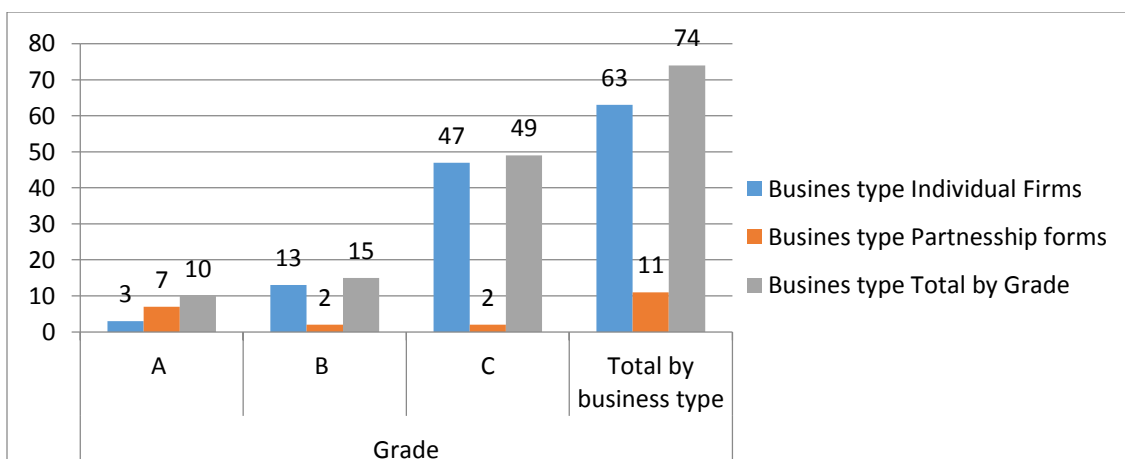
The closed ended questionnaire was developed based on Summated Scales (or Likert-type Scales) with 5 choices; "strongly agree", "agree", "neutral", "disagree" and "strongly disagree" (see appendix) and cumulative scales or Louis Guttman's scalogram analysis, consisting of a series of statements to which a respondent expresses his agreement or disagreement. The reason for choosing to use a Likert scale is because it is suitable for measuring attitudes which is helpful for the purpose of this study. Another reason for using five point Likert scale is that earlier research which the researcher borrow much from for this study, used the same scale (Kothari, 2004). This makes it possible for the researcher to base some outcomes of the questionnaires with previous research.

3.5 Sample design and selection

Under this research the following sample design elements have been consider.

- 1) **Type of universe** which can be finite and infinite set objects. The audit environment of Ethiopia is finite universe of this study.
- 2) **Sampling unit** which can include geographical, social unit and individuals that exist in the universe. Private audit firms are the sampling unit of study
- 3) **Source list:** It is also known as ‘sampling frame’ from which sample is to be drawn. It contains the names of all items of a universe (in case of finite universe only). There 74 private audit firms included under Office of federal auditor general (OFAG) 2014 updated list. These are the source list used under this research.
- 4) **Size of sample:** This refers to the number of items to be selected from the universe to constitute a sample. Under this research from the total of 74 private audit firms registered by OFAG, the study selected 20 audit firms which represented around 27% of the total sample frame. Due to difficulty of obtaining the required data from private audit firms for various reasons such as the data being internal information, sensitivity for competition and confidentiality for their competitive advantage, the study used information obtained from twenty audit firms that are relevant for the research.

Figure 1 Population distribution of audit firms by firm grade and business type



Source: SPSS output from survey data, 2015.

For this research, stratified random sampling is applied. Stratified random sampling is a technique which attempts to restrict the possible samples to those which are less extreme by ensuring that all parts of the population are represented in the sample in order to increase the efficiency.

The stratification process was made based on the grade of audit firms as shown in the table below. There were 74 private audit firms included in the 2014 updated list of audit firms issued by OFAG. These audit firms have their own grades from grade “A” up to grade “C”. which represent 15%, 20% and 65% of the population respectively. The researcher used the grade classification of the audit firm as a stratum and categorized the audit firms into three groups (i.e. group 1, grade A audit firms; group 2, grade B audit firms and group 3, grade C audit firms). The table below shows the number and percentage of audit firm categorized under each group and the sample size selected from group for the purpose of this research. As presented on the table below from the total 74 audit firms listed on OFAG list 49 audit firms which represent 66% of the total fall under grade C firms category. The study used 27% of each stratum population from grade C and B category and 30% of stratum A. The reason for increasing the percentage of sample size under stratum A is due to smaller number of audit firms under this grade category as compared to the other two categories because of which the study used higher percentage of audit firms under grade A stratum..

Table 1 Sample Frame and size of audit firm

Grade of audit firm	Number of audit firm under each category	Percentage from the total firm	Randomly select 20 audit firm for each category	Sample size for each strata
A	10	14%	3	30%
B	15	20%	4	27%
C	49	66%	13	27%
Total	74		20	

Source: own computation.

3.6 Data analysis and interpretation

To analyze the raw data collected from sample private audit firms, the researcher used SPSS 20 version which is specialized statistics program that can provide sufficient tools for analyzing the collected data and excel application for graphic presentation of the SPSS outputs. Therefore, the quantitative data from the questionnaires was analyzed using simple descriptive statistics (mean, frequency and percentage) and presented in the form of graph and table. This enabled the researcher to make the analysis and to see the current status of private audit firms' professional ethics and the effect of their unethical practice on the overall quality of audit performed by them.

CHAPTER FOUR

4. RESULTS AND DISCUSSION

Under this chapter the results of the data analysis collected from respondent firms through questionnaire has been discussed. As stated at the beginning of the research the main objective of the research is to assess the current status of professional ethics and independence of private audit firms and its impact on overall audit quality. The questionnaire was developed to gather information related to professional ethics and independence, source of threat for professional ethics and independence that can also affect the quality of audit, source and causes of such ethical violation and lack of independence, the role of regulatory and professional bodies on ethical violation and lack of independence.

The analysis of the chapter is organized into ten subsections. The first section of this chapter discusses the background information of the respondents which includes business type of the firms, grade of the firms, number of partners and employees and years of experience of the firms. The second section will show the response rate and missing value of the respondent firms.

The third section discusses the analysis of respondent firms on the fundamental principles of professional ethics of professional accountants and independence of audit firms from their clients. The fourth section of the chapter discusses the analysis on the type and source of threat to fundamental principles of professional ethics and independence.

The fifth section of the chapter discusses the data analysis of all possible safeguard mechanisms that can be set by regulatory and professional level and safeguards that can be set on working environment at firm-wide and engagement level based on the recommendations stated in the handbook IESBA and OFAG code of professional conduct.

The sixth and seventh sections discuss about the factors that lead to violation of code of ethics and parties highly involved and the effect of non-compliance with code of ethics and independence on audit quality respectively.

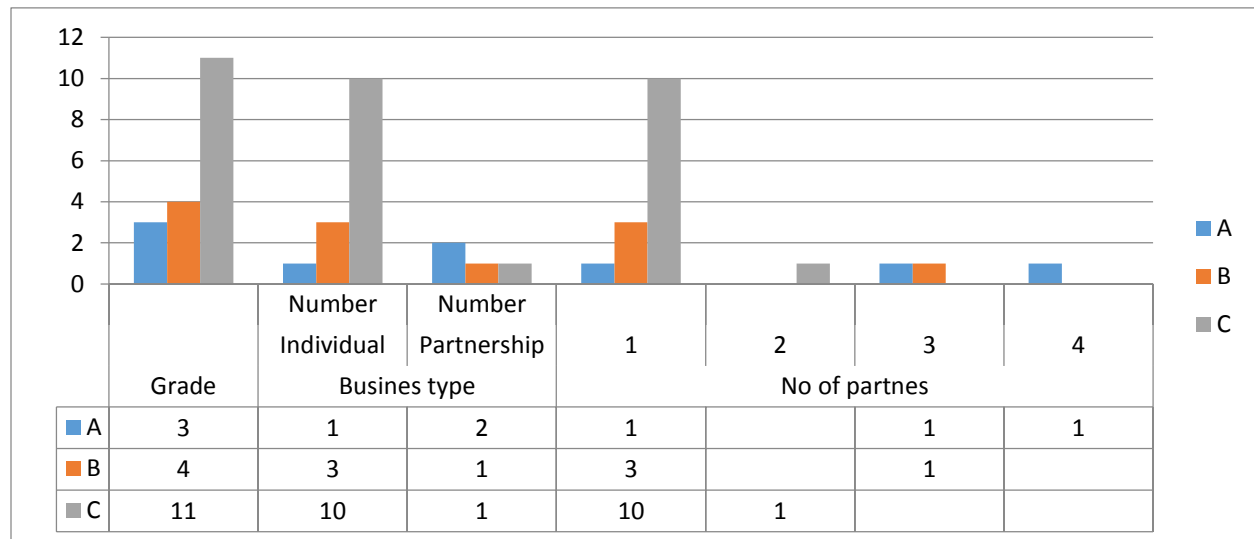
The eighth and ninth sections of this chapter cover the role of regulatory and professional body on development and maintenance of ethical standard and independence of private audit firm on the audit environment and the expectation of private audit firms on the new proclamation.

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

4.1 Background information.

The researcher has assessed the profile of the respondent audit firms based on their grade given by OFAG, business type of the firms, number of partners, number of employee and years of experience of the firms. The table below summarizes the firm grade, business type and no of partners of the respondent audit firm.

Figure 2 Summery of firm grade, business type and No of partnership



Source: SPSS output from survey data, 2015.

As shown in the table above the 18 respondent audit firms composed of 3 grade A, 4 grade B and the remaining 11 from grade C audit firm. This represent 27% of the stratified population for grade C and B for each and 30% of the stratified population for grade A audit firms. As compared to the total sample it represents 15%, 20% and 65% for grade A, B and C grade audit firm respectively.

In general the above table indicates that, except some deviation on grade C stratum, the data collection are made as per the research plan made.

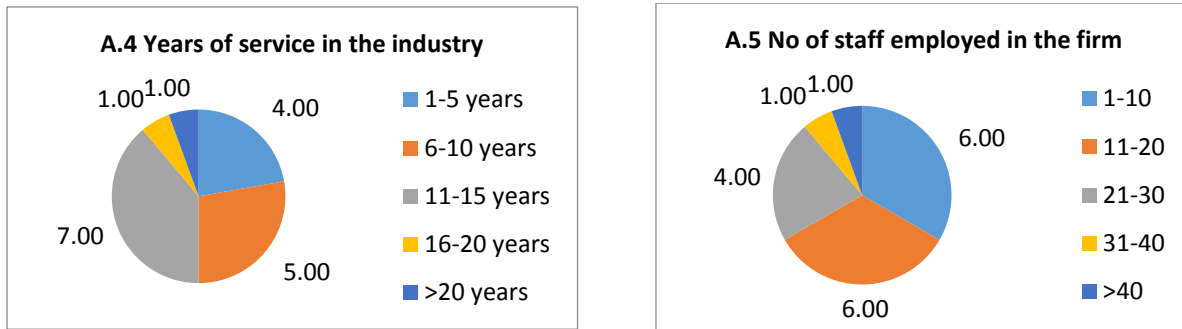
The other background information of the respondents are business type of firm establishment. From the total population, 63 audit firms which represent 85% of the total population of audit firms are owned by individuals and remaining 11 audit firm are established under general partnership. As shown in the figures 2, from 18 respondent audit firms, 14 audit firms which represent 22% of the total sample size are owned by individual practitioners. The remaining 4 respondent audit firms are established on general partnership structure.

The third background information is the number of partners in those audit firms established under partnership formation. From data collected 10 audit firms are owned by one individual, 1 audit firm by two individual, 6 audit firms are by three individual and 1 audit firm by four individuals. As compared to the total sample fame, in terms of number of partners, 63 audit firms are single owner audit firms, 8 audit firms are two individual jointly owned, 2 audit firms are jointly owned by 3 individuals and one audit firms are audit by jointly owned by four individual.

The number of partners and business type of firms are directly related to the number of qualified accountants having a practicing certificate to perform audit activity. For Instance one of the OFAG's requirements to become grade A audit firm, a minimum of five qualified accountants including the principal of the firm should be working on that audit firm. So as the number of partners increases the decision power also dilutes among partners which can increase the quality of decision made by the audit firm when applying audit ethics and independence. In addition to this, partner's rotation can be used as a safeguard mechanism for any ethical threat that avoid or minimized the level of threat to an acceptable level.

The fourth and fifth parameters used for background information are firm experience in the industry and number of employee working in the respondent audit firm. These parameters are also used by OFGA to evaluate the grade of audit firm and also indicate the firm's opportunities to get involved different business sectors and exposures.

Figure 3 Firms year of service and number of staff employed.



Source: SPSS output from survey data, 2015.

As represented in the above figures, more than 77.78% of the respondents have been working in the audit industry for more than 6 years and only 22.55% of the respondents were having working experience of less than five years. This indicates that respondent audit firms have proper understanding on the issues of ethics, independence and quality audit work performed in the industry. For number of staff employed, 50% of the respondent audit firms have more than 10 staff as an employee. Even if most of them join the industry early the respondent audit firms are not as such small size. However, due to the associated costs like staff salary, education fee, and other related costs, most of audit firm specially those included under C grade, prefer to outsource their work to part time auditors which is another factor that affect professional ethics and audit quality.

Number of experience and staff employee by firm has individually weight 20 % for the evaluation criteria of OFGA for grading the audit firm.

4.2 Analysis of response rate and missing values.

From the total of 20 samples audit firms selected for this research, 18 of them made a response and provide their input for our research. As stated under sample size section above, from the distributed questioner, 18 audit firms which account for 90% of the sample size and 25% of the total population provided their response. As compared to expected sample used, two audit firms which are categorized under grade C did not provide their responses. This non-response does not have a material effect on the research output and the response rate also is reasonable to make a conclusion for issues raised under this research paper.

Table 2 Response rate by firm grade, business type and no of partnership

	Grade		Business type				No of partners			
			Individual		Partnership		1	2	3	4
	No	%	No	%	No	%				
A	3	17%	1	6%	2	11%	1		1	1
B	4	22%	3	17%	1	6%	3		1	
C	11	61%	10	56%	1	6%	10	1		
	18		14	78%	4	22%	14	1	2	1
Non respondent sample	2									
Total sample selected	20									
Respondent sample %	90%									
Non respondent sample %	10%									

Source: own computation.

4.3 Fundamental principles of professional ethics and independence

Professional ethics is a system or code of behavior based on moral responsibility and obligation to explain how an auditor must behave and also used as a guide for all audit personnel to enhance the performance and professionalism.

Under this section, the research has described the results of respondent audit firms on the fundamental principles of ethics for professional accountants and independence.

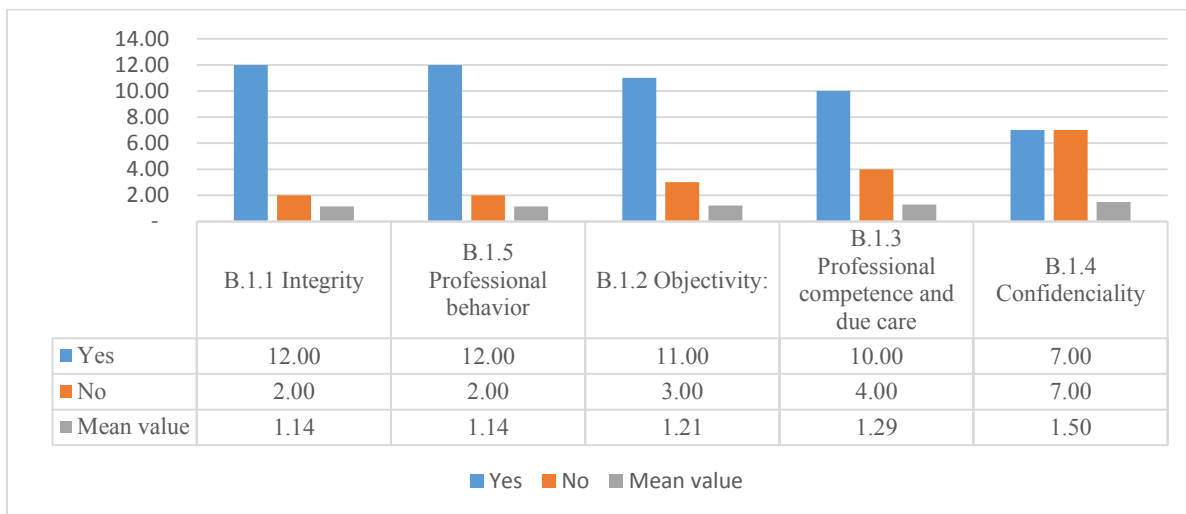
4.3.1 Fundamental principles of ethics for professional accountants

As mentioned on the literature review, in order to comply the responsibility of auditors to the public interest rather than looking for client needs alone, professional accountants or auditors should comply with all duties and responsibility stated under the code of conduct of professional accountants or auditor and other requirement that keep them both independent in mind and appearance. This section deals with the respondent audit firms' responses on fundamental principles of professional ethics and independence, identifies highly violated fundamental principle of professional ethics, the main type of threat reflected on the audit environment and analyses their related sources or causes.

The analysis of variable B.1 indicates that 14 respondent firms which represent 78.22% of the total respondent firms agree that the private audit firms do not comply with the fundamental principles of professional ethics (B.1) issues by Office of Federal Auditor General and/or International Ethics Standards Board for Accountants. Only 22.22% (4 audit firms) of the respondent audit firms disagree with the non-compliance of ethical principles by audit firms.

As depicted in the figure below 12 audit firm which represent 67% of the respondent audit firm select scale 1 which translates as “agree” in the questionnaire to express their opinion on integrity and professional behavior as the first highly violated fundamental principles of professional ethics by private audit firms. The mean value of these two variables also 1.14 which is also near to scale 1 which is translated as “agree” On the other hand which accounts for 61% and 56% of the total respondent firm having mean value of 1.21 and 1.29 respectively express their opinion as objectivity and professional competence and due care are the second and third fundamental principles of professional ethics that are not complied with by private audit firms respectively. The mean value of these two variables also nearer to scale 1 which is translated to “agree” in the questionnaire.

Figure 4 Fundamental principle of professional ethic



Source: SPSS output from survey data, 2015.

The analysis of variable B.1 respondent audit firms shows that private audit firms do not comply with the fundamental professional ethics. The individual analysis of the five fundamental principles also indicate, integrity, professional behavior, objectivity and professional behavior and

due care are the most affected principles by private audit firms. The figures also indicate that confidentiality having the mean value of 1.5 which is in the middle between of scale 1 and 2 which translates as agree and disagree respectively. So 50% of the respondent firms have agreed that confidentiality is not the main issue as compared to the other fundamental principles.

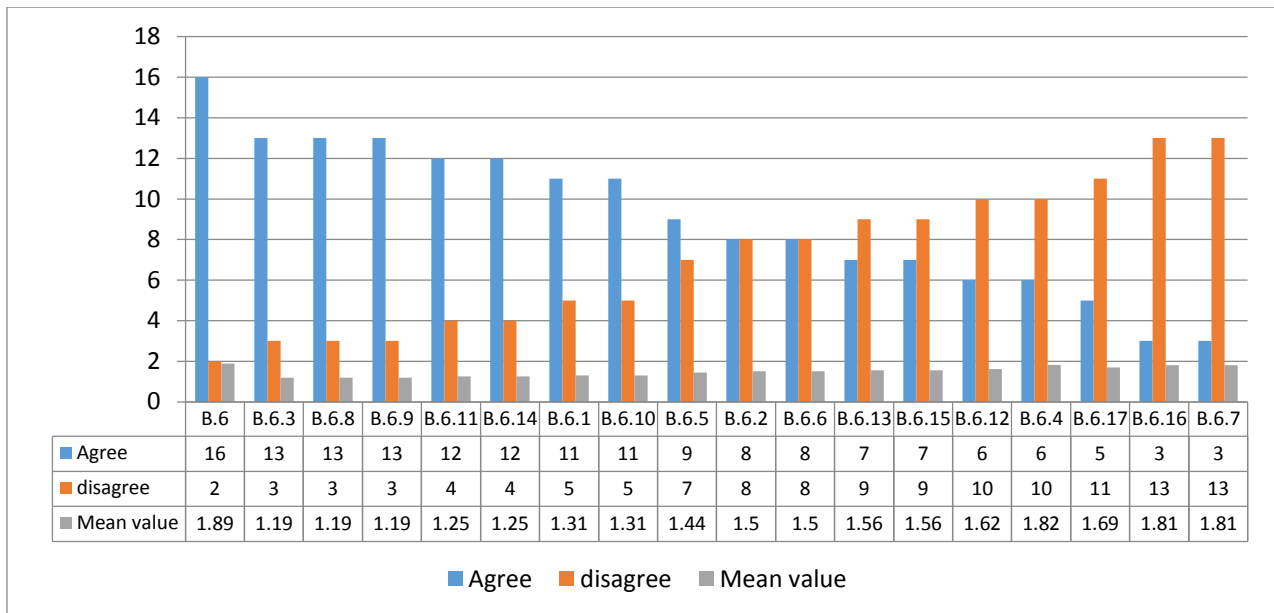
In general based on the above analysis and the result on variables B.1 for professional ethics and variables from B.1.1 to B.1.5 five components of fundamental principles of professional ethics, it is possible to conclude that private audit firms do not comply with the fundamental standards of professional ethics issued by OFAG and IESBA.

4.3.2 Independence.

The researcher used variable codes from B.6, B.1.1 to B.6.17 and B.6.2 to assess the independence of private audit firms from their client. These variables are also indicated under IESAB “the handbook of the code of ethics for professional accountant “and “handbook of international auditing and quality “as a possible source of factors that affect the independence of professional accountant respectively.

Variables B.6 indicate the general perception of respondent audit firm on the independence in mind and appearance of private audit firm from their client. Variables B.6.1 to B.6.17 used to identify the main source of threat for independence on private audit firms. Variable B.6.2 shows the combined mean of source of variable that affect the independence of private audit firms. The t figures below explain the output of the three variables.

Figure 5 Factors affect independence of audit firm



Source: SPSS output from survey data, 2015.

To measure these variables the researcher used scale 1 and 2 to measure the respondent firm “agreement “or “disagreement” on question to assess whether private audit firms are independent or not from their client and to identify possible source of threat that affect their independence. The B.6 column on the above figure indicates that from the total of 18 respondent firms 16 which account for 88.89% argue that private audit firms are not independent in mind and in appearance from their clients. The mean value of these variables also is 1.89 which is near to scale 2 which is translated to “disagree “on the independence of private audit firms from their client.

From the above figure it is possible to understand that from the 17 variables that are selected for the research to identify the possible sources of independence that affect audit firms, variables B.6.3, B.6.8, B.6.9 B.6.11, B.6.14, B.6.1 and B.6.10 which are having family and personal relationships with client, long association of senior personnel (including partner rotation) with an audit client, providing non-assurance services to an audit client, providing taxation services like, compliance, planning, provision of formal taxation opinions and assistance in the resolution of tax disputes, to audit client, receiving audit fees from a client or client group which represent a large proportion of a firm’s total fees, having financial interests with the audit client, handling

accounting records and preparing financial statements of the audit client are the seven possible source of threats that affect the independence of private audit firms which is agreed on by more than 70% of the respondent firms.

Moreover, the mean value of these variables is near to 1, which is translated as “agree” as a source of threat for independence of private audit. In addition to this, the output of B.6.2 which is combined mean of the seventeen variables measured above is 1.4596, this figure indicate the combined mean value of the identified eleven variables between 1 and 2 this shows some of respondent say there is lack of independence

On the contrast to this, other variables like B.6.7, B.6.16, B.6.17, B.6.4, B.6.12, B.6.15 and B.6.13 which are serving as a director or officer on the board of an audit client, determine contingent fees based on the outcome or result of a transaction or audit work, accepts significant gifts or hospitality by firm or a member of the assurance team, employment with an audit client, providing of internal audit services, not collecting audit fees from an audit client for a longer time period and start the next audit and providing of recruiting services to the audit client respectively are possible source of threat that affect the independence of professional accountants identified by OFAG and IESBA but this factors are not affect the independence of the private audit firm engaged in Ethiopia.

In general the results of the empirical finding on the independence of private audit firms in the figure above shows that it is possible to say private audit firms engaged in Ethiopia are not independence in mind and appearance from their client.

On the above two section, the researcher analyzed the respondent firms response on fundamental principles of professional ethics and independence of private audit firms engaged in Ethiopia. The survey result shows that private audit firms does not comply fundamental ethical principles and there are not independence in mind and appearance from their audit client when they provide professional service to the public in general and specifically to their client..

4.4 Type and source of threat for professional ethics and independence.

Under this section the research shows the survey result on the type and source of threat reflected on the private audit environment and the possible type of safeguards that can be set by the regulatory and/or professional bodies and safeguards that can be set on working environment at the firm and specific engagement level in order to reduced possible threat that reflected on the industry.

The hand books of IESBA categorized the threat of fundamental principles of ethics and independence on five main groups. Part A and B of this hand book also state that possible source of those threat that affect the code of ethics and independence of professional accountants. Regarding to the safeguards, IESBA and OFAG identify three possible ways of establishing safeguards that can be established by the profession and the regulatory bodies, safeguards established by the working environment at firm-wide level and at specific to engagement level.

4.4.1 Type of threats

The research also identified threats that highly affected private audit firms' and variables from B.4.1 to B.4.5 stated under the appendix are used to identify those threat most of the time effect on audit firm. As shown in the table below, the mean value of self-interest threat, self-review threat and familiarity-threat is 4.33, 4.06 and 4.00 respectively, this indicate that most of respondent firms select scale 1 and 2 which represent "agree" and "strongly agree" respectively moreover, percentage figure of these there type of threats are 94%, 89% and 83%. The figures indicates that this type of threats are mostly occurred on private audit firm environment. The other type of threat namely Advocacy and Intimidation threat score a mean value of 3.56 and 3.5 respectively which is fall between "agree" and "neutral" scale measurement. As compared to the above three mentioned type threat, this two type of threat are not commonly reflected on the private audit environment.

Table 3 Types of threats

Type of threats	Strongly disagree	Disagree	Neutral	Agree	Strongly agree	Mean value for threat	Percentage of respondent above agree
B.4.1 Self-interest threat	-	-	1.00	10.00	7.00	4.33	94%
B.4.2 Self-review threat	-	2.00	-	11.00	5.00	4.06	89%
B.4.3 Advocacy treats	-	2.00	8.00	4.00	4.00	3.56	44%
B.4.4 Familiarity threat	-	2.00	1.00	10.00	5.00	4.00	83%
B.4.5 Intimidation threat	2.00	3.00	3.00	4.00	6.00	3.50	56%

Source: own computation.

In general, the survey result on types of threats shows that self-interest, self-review and familiarity-threats are the common type of threat that has been reflected on private audit firm industry. In contrary to this advocacy and intimidation threats are not as such reflected on the industry.

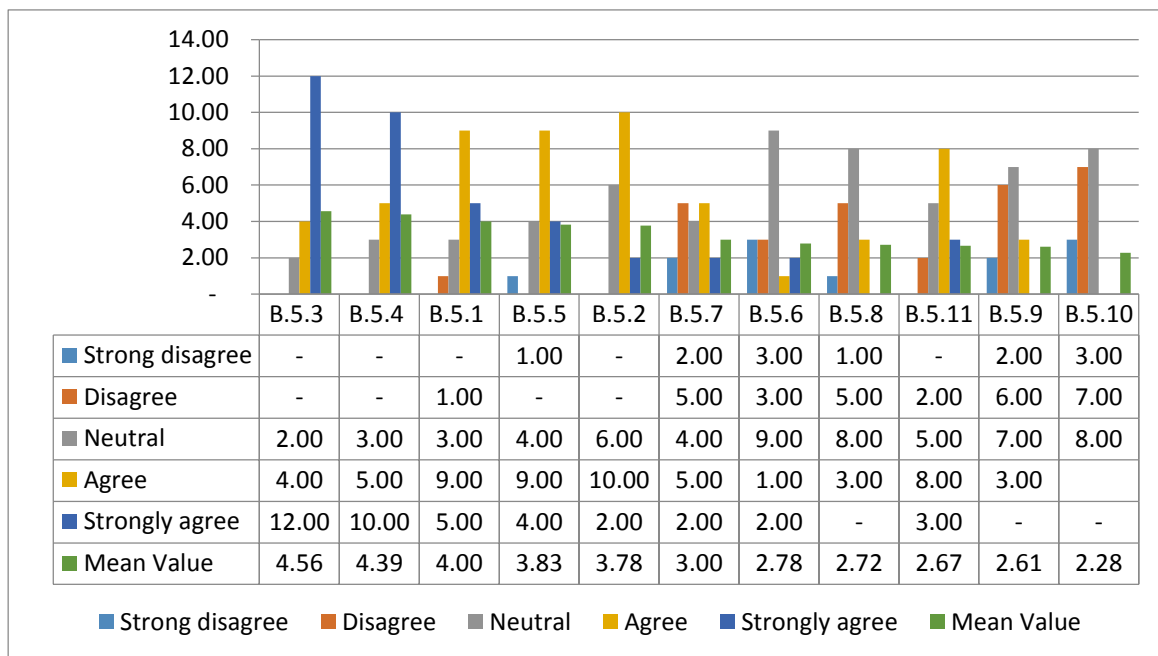
4.4.2 Source of threat

The other issue identified under this research is the source of threats that lead the audit firm not comply fundamental principle of ethic and independence. The hand book of IESBA part B “Professional Account in Public Practice” issued on 2013, identified many list of variables that can be a possible source of threat for fundamental ethical principle and independence. The researcher in consultation with some of the respondent firms and other chartered certified accountant at the beginning of the study select eleven variables from IESBA list of possible source of threat that most likely occurred on the current private audit firm environment. Variables B.5.1 to B.5.11 attached on the appendix was used to evaluate the source of threat reflected on private audit environment.

As presented on the figure below, the mean value of variable B.5.3 (set an audit fee which is not enough to perform the engagement in accordance with applicable standards without creating any threats), B.5.4 (accepting new client appointment as an auditors without making any professional clearance to understand the reasons beyond change in appointment of the existing audit firm) and B.5.1 (accepting client without proper client assessing techniques used like illegal activities, dishonesty or questionable financial reporting practices) is 4.56, 4.39 and 4.00 respectively, in

addition to this, firms that “agree” and “strongly agree” for these three variables are above 75% of the respondent. This indicate that this three factors are the most source of threats that leads private audit firm not to comply the fundamental principles of professional ethics. The hand books of IESAB under section 210 and 240 of professional appointment and Fees and other types of remuneration respectively, state these variables are an example of self-interest, self-review and familiarity threat of fundamental principle of integrity, professional behaviors, and professional competence and due care and objectivity.

Figure 6 Source of threat



Source: SPSS output from survey data, 2015.

On the other hand variables B.5.5 (Not performing reasonable assessment to identify any conflict of interest between the client and the firm) and B.5.2 (Making engagement without having enough competency to perform the engagement) score mean value of 3.83 and 3.78 which accounts to 72% and 67% of the respondent firm respectively, are other group of variables that highly affect the fundamental principles of professional ethics. As per IESBA section 210 and 220 this variables are potential source of threat for fundamental principles of objectivity and professional competence and due care.

On the other hand variables B.5.7, B.5.6, B.5.8, B.5.9 and B.5.10 score a mean value of 3.00 and below, based on this survey result we can conclude that this factors are not a major source of threat that affect the fundamental principles of professional ethics under the context of the current private audit firm environment.

4.5 Type of safeguard

This research used variables B.2 and B.3 to assess whether of private audit firm has set of system to identify potential threats on their audit engagements and private audit firms' capacity to evaluate the effect of those identified threats respectively. From the 18 respondent audit firms 10 audit firm which accounts to 56% of the respondent firm argue that private audit firm has a capacity to evaluate the effect of any threat once it identified on their audit engagement. This capacity and experience can be acquired though work experience on the industry and formal and informal education. But the main problem is the capacity and/or willingness of firms to set a formal set of systems that can easily identified any potential threat that can affect the performance of the audit firm at specific engagements or firm level. This lack of willingness can also related to non-compliances with fundamental principles of professional ethics as stated above.

Table 4 Capacity of firms to set safeguards.

Variables	No of respondents				Mean value
	Yes		No		
	No.	% age	No.	% age	
B.2 Are private audit firms engaged in Ethiopia has a set a system to identify threats that affect their fundamental ethical behavior and a required safeguards for those identify threats	4	22.2%	14	77.8%	1.78
B.3 Are private audits firm has a capacity to evaluate the level of ethical threats they face during the auditing engagement process.	8	44.4%	10	56.6%	1.56

Source: Own computation.

As understood from the above table we can infer that 77.8% of the respondent firm argue that private audit firm does have any established safeguard system to identify any potential threat which affect their specific engagement and/or firm wide level performance. In contrast to their capacity to evaluate any identified threat, 56.6% of the respondent firms argue that they have a capacity to

evaluate the effect of any identified threat on the performance or compliance of professional ethics and independence.

4.5.1 Safeguards set by regulatory and/or professional body

The other issue identified under this section is the safeguards that can be set by the regulatory and professional bodies and the audit firms. Variable B.7 and B.7.1-B.7.5 shows whether regulatory and professional bodies the audit environment has set any set of safeguards. As stated under the literature review until the beginning of January 2015 the regulatory body that monitor and supervision the audit industry had been OFAG and then a new regulatory body was established by financial reporting proclamation no 847/2014. This research evaluates the role of OFAG on implementation of the professional code of conduct before transferring this duty to the new board and the role of EAAAP on professional ethics and audit quality.

Table 5 Safeguards set by regulatory or professional body.

Variables	Yes	No	Missing value	Total No	Mean value	% age
B.7 Do you have seen any safeguards set by local regulatory and professional bodies of auditor as per the recommendation made by International Ethics Standards Board for Accountants IESBA and other international professional bodies?	7.00	11.00		11.00	1.61	61%
B.7.1 Educational, training and experience requirements for entry into the profession	7.00	-	11.00	11.00	1.00	61%
B.7.2 Continuing professional development requirements	5.00	2.00	11.00	13.00	1.29	72%
B.7.3 Corporate governance regulations	2.00	5.00	11.00	16.00	1.71	89%
B.7.4 Professional standards Custody of Client Assets	1.00	6.00	11.00	17.00	1.86	94%
B.7.5 Professional or regulatory monitoring and disciplinary procedures	2.00	5.00	11.00	16.00	1.71	89%

Source: own computation.

This research used variables B.7 and its sub components from B.7.1 to B.7.5 to assess the possible safeguarded that can be applied by regulatory and professional bodies has to be set in order to reduce the possible threat. The above five possible safeguard mechanisms shows under table 5 are extracted from the guideline of both OFAG and IESBA. Even if OFAG includes these points on code of ethics for professional accountant, 61% of the respondents firms does not agree with the

implementation of this safeguard mechanism expect the educational, training and experience upon obtaining the audit license. In addition to this Continuing professional development (CPD) requirements of ACCA is another safeguarded mechanism that set by ACCA in order to sustain as a member of this professional body. The main value of variable B.7.1 and B.7.2 is 1 and 1.29 respectively which is nearer to scale 1 which represent “yes” on the questioner.

From this findings, someone can understand that from five possible recommended safeguards identify by international bodies, the only safeguards machismos is educational, training and experience requirements for entry into the profession and continuing professional development requirements applied by regulatory and professional body respectively. However the other three possible safeguards like corporate governance regulations, professional standards custody of client assets and professional or regulatory monitoring and disciplinary procedures are not applied by both regulatory and professional bodies as a safeguards mechanism to avoid or reduced the effect of possible threat. As the table 5 also indicates more than 90% of the respondent firm agree with this argument, moreover the mean value of this three variables are above 1.7 which is near to 2 that translated as “no” in the questioner. Both figures ascertainment support the fact that the safeguards mechanism recommended by IESBA and OFAG has not been implemented by both the regulatory and professional body.

4.5.2 Safeguards set by audit firm.

The other type of safeguards for threat of professional ethics are safeguards established by the working environment at firm-wide level and/or specific engagement level. This research used B.9 and B.9.1 to B.9.5 variables to assess whether the private audit firm set a safeguards mechanism at firm-wide and/or engagement level based on a possible safeguards recommended by IESBA and OFAG. The table below indicates the response of respondent audit on variables B.9 and B.9.1 to B.9.5. From the total respondent firm 13 audit firm which accounts to 72% of the sample size argue that private audit firm does not have set of safeguards recommended by IESBA and/or OFAG at firm-wide or specific to engagement. The mean value of this variables also near to scale 2 that indicated “No” on the questioner support this fact.

Table 6 Safeguards set by working environment

Variables	Yes	No	Missin g value	Total No	Mean value	% age
B.9 have seen seem any safeguards set by audit firms as per the recommendation made by International Ethics Standards Board for Accountants (IESBA, OFAG and other international professional bodies?	5.00	13.00		13.00	1.72	72%
B.9.1 Firm leadership that stresses the importance of independence and fulfill the expectation of public interest	5.00	1.00	12.00	13.00	1.17	72%
B.9.2 Set policy and procedures to monitor and implement quality control,	2.00	4.00	12.00	16.00	1.67	89%
B.9 3 Set independence policies regarding identification of treats	2.00	4.00	12.00	16.00	1.67	89%
B.9 4 Rotation of audit team for an individual client within reasonable time period	3.00	3.00	12.00	15.00	1.50	83%
B.9.5 A disciplinary mechanism to promote compliance with policies and procedures	1.00	5.00	12.00	17.00	1.83	94%

Source: own computation.

The survey use variables recommended by IESBA and OGAF under hand book on part B and C and rule number 9.24 and 9.25 of Ethiopian code of ethics for professional accountants respectively to evaluate safeguards that can be set by audit firms at working environment level The result on the analysis of variable B.9.1 to B.9.5 shows expect B.9.1 which is Firm leadership that stresses the importance of independence and fulfill the expectation of public, the other variables which accounts to more than 80% of the respondent firm argue that the other type of safeguards does not applied by private audit firms.

In general, based on the output of the survey result, most of safeguards that can be set by regulatory and professional bodies and safeguards set by the audit firm at working environment level does not exist in the private audit firm industry of Ethiopia as a safeguards mechanisms.

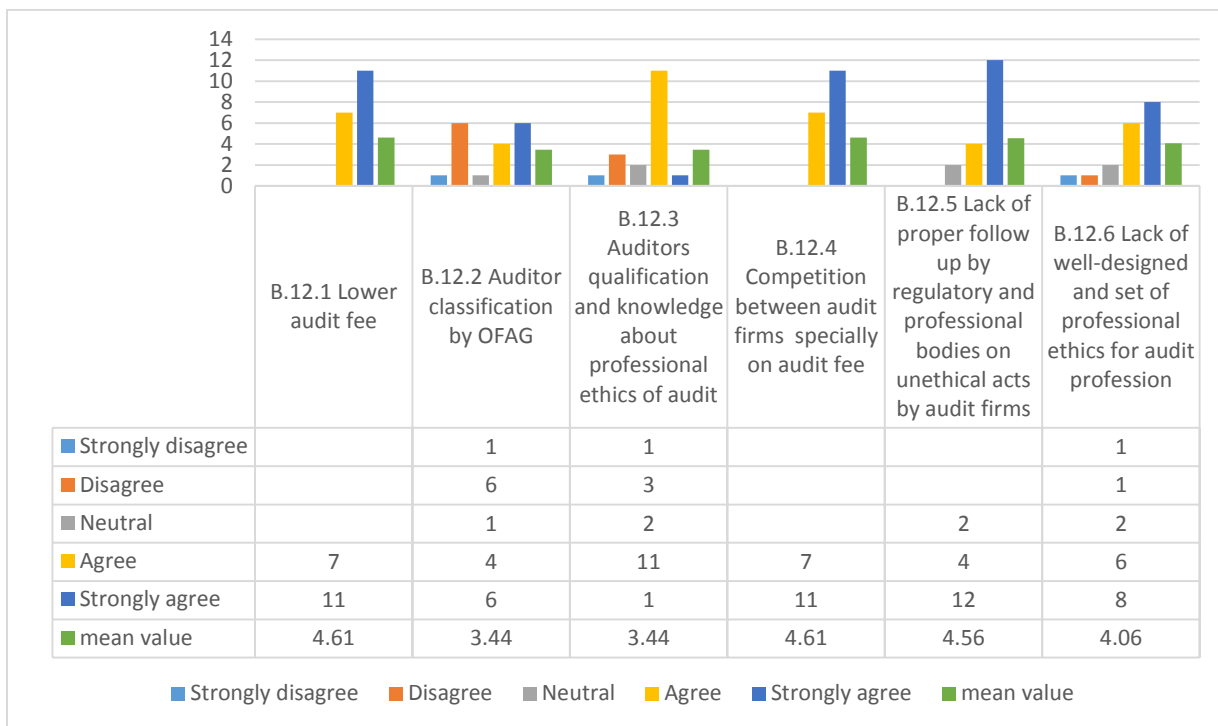
4.6 Factors that lead to violation of code of ethics and parties highly involved.

Under this section factors that lead private audit firm to violate code of ethics, the approaches of private audit firm used to get new client and the level of violence between audit firm classified as grade A, B and C and parties highly involved in the violation of such ethical code and independence principles. Has been discussed.

4.6.1 Factors that lead private audit firm to violate code of ethics

Under this section, the research paper describe the root causes that enforce private audit firms to violate the fundamental professional ethics and independence principles in the context of Ethiopian private audit environment.

Figure 7 Factors that lead audit firms to violate code of ethics



Source: SPSS output from survey data, 2015.

This research includes variables B.12.1 to B.12.6 on the questioner after discuss with some audit firm and qualified accountants participate on the audit environment about the main cause for violence of code of ethics by audit firm. Based on their input and other literature comment on

violence on code of ethics the respondent audit firm asked to identify the main reasons of firms not to comply with the code of ethic and independence principle. Based on the responses of the respondent firm shows in the figures below, the mean value of low audit fee (B.12.1), competition between audit firms especially on audit fee (B.12.4), Lack of proper follow up by regulatory and professional bodies on unethical acts by audit firms (B.12.5), Lack of well-designed and code of professional ethics for audit profession (B.12.6) are 4.61, 4.61, 4.56 and 4.06 respectively which fall between “strongly agree” and “agree” measurement scale on the questioner.

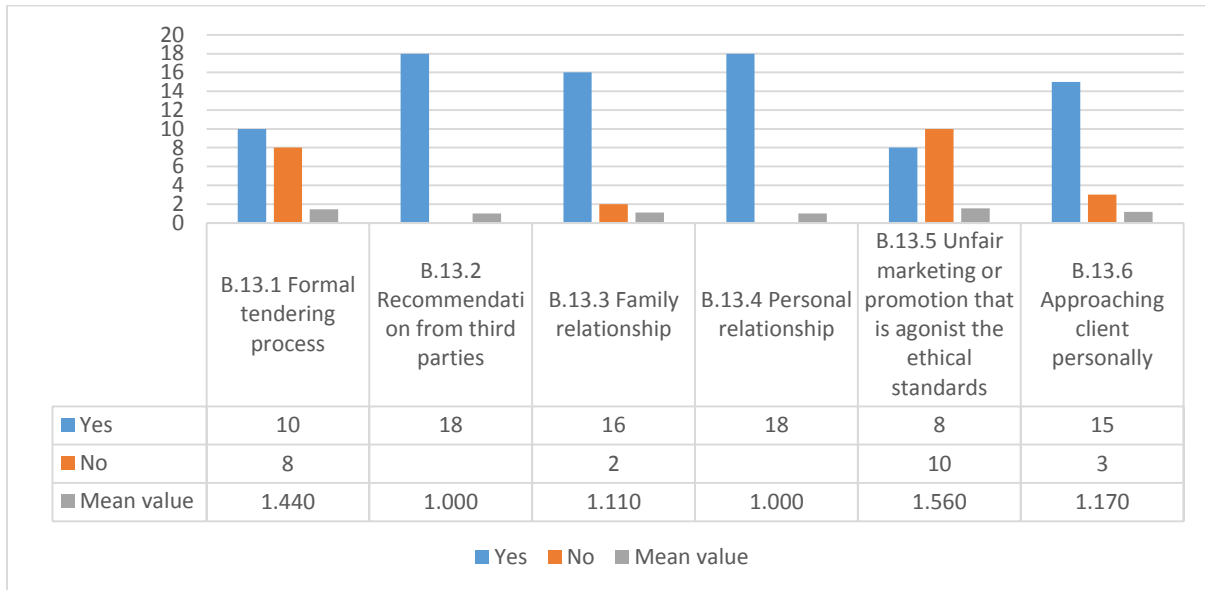
This indicates these variables are the main factors that lead audit firms to violate the code of ethics as compared to the identified six variables in the research question. Classification of audit firms by OFAG and auditors’ qualification and knowledge on professional ethics are the least likely causes for non-compliance of code of ethics by audit firms.

4.6.2 Approach used by audit firms to getting new client

The researcher also identify the approach used by audit firms to get new client and its effect on the independence and code of ethics. There are different ways like formal tendering, recommendation by third part, family and/or personal relationships and others that private audit firm used to get new client.

As shows in the figures below, 83.33% and above of the respondent firms argue that variables like recommendation by third party, personal relationship, family relationship and approaching the client are the most widely methods used to get new clients by audit firm. From the total respondent firms around 50% of them agree with formal tendering process isn’t preferable way used by private audit firm to get new client. However the most preferred approach followed by private audit firms are a possible source of threat that can affect the independence and code of ethics of professional accountant stated on guideline and the hand books of OFAG and IESAB. In addition to this, as stated on analysis of safeguard mechanisms section of this chapter, most of recommended safeguards methods for any threat identified by OFAG and IESBA is not applied by private audit firm, so the possibility to violate the ethical principle and loss the independence will be high, when audit firm use this approach to get new client.

Figure 8 Approaches used to getting new client



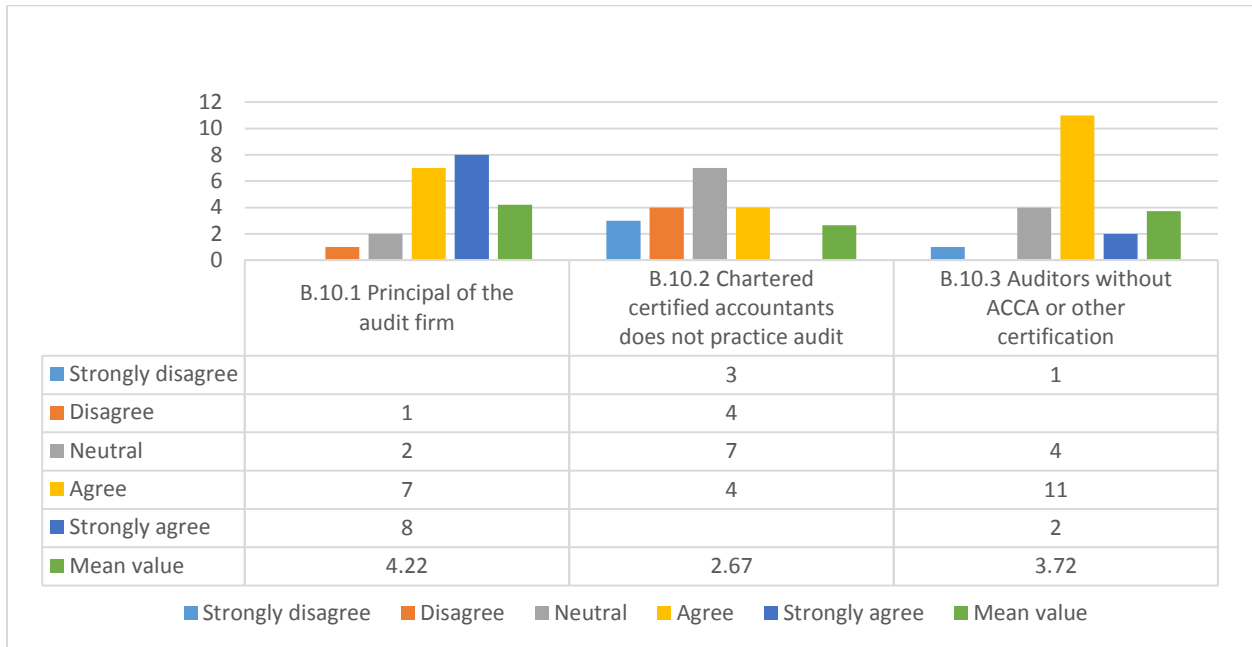
Source: SPSS output from survey data, 2015.

4.6.3 Parties and group of people violate the code of ethics and independence

The other point identified under this research paper is parties and individual who involved on violation of the code of ethics and independence in the audit environment. Based on preliminary assessment of code of ethics and independence some audit firm and chartered accountants argue that principal of the audit firm, chartered certified accountant and auditors without professional qualification highly suspected groups that violate the code of ethics and independence and the research used this variables to identify which group that can be violate the code of ethics.

As shown on the above figure, 15 respondent audit firm which accounts to 83.33% of the total sample size argue that the principal of audit firms' are the one who mostly likely violates the ethical principle and independence in the audit environment. The overall mean value of this variable is 4.22 which fall between "agree" and "strongly agree" measurement scale on the questioner

Figure 9 Parties involved on violation of code of ethics and independence.



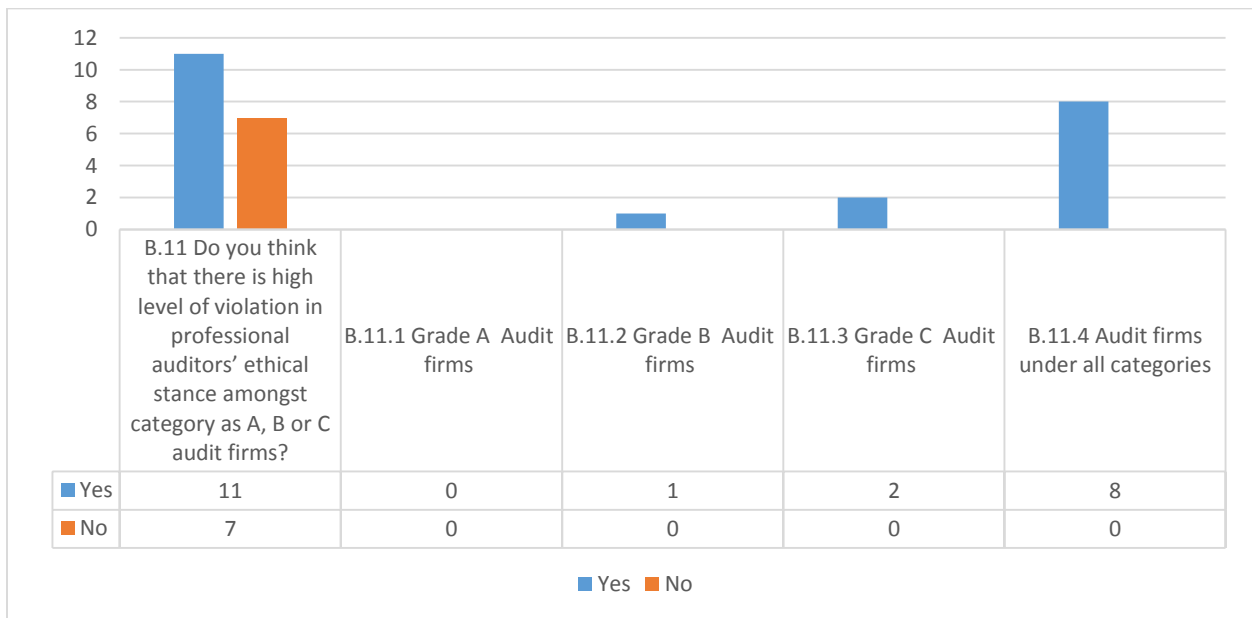
Source: SPSS output from survey data, 2015.

The other group of people that violate the ethical principle as per that data analysis shown in the above figures is auditors does not have professional qualification, 13 respondent firms which accounts for 72.22% of the total sample size and having mean value of 3.72 which is close to 4 that is encoded as “agree” measurement scale on the questioner. The last group of people used under this sub section is chartered certified accountant does not practice audit but their involved in audit industry (those qualified auditors but does not have audit license). Most of the respondent firm does not believe this group of people violate the ethical principle and independence. The mean value of this variables also 2.67 which is fall between “disagree: and “neutral” scale as per the Likert type scale measurement used under this survey. In general from the above analysis can conclude that principal of private audit firm and those auditors does not have a professional qualification the two group of peoples that violate the ethical principle and independence in audit environment.

4.6.4 Audit firm categories violate code of ethics.

The research also investigate whether there is a difference in violation of ethical standards and lack of independence among A, B or C audit firm categories. From the total 18 respondent firm 7 respondent firms which accounts for 39% of the respondent firm argue that there no difference between audits firm categories in the violation of ethical standards. In addition to this, 8 of them which accounts for 44% of respondent firm says the violations of ethical standards and lack of independence reflected under all audit firm regardless of the categorization of audit firm as grade A B and C.

Figure 10 Audit firm category violate code of ethics



Source: SPSS output from survey data, 2015.

On the other hand, 1 and 2 respondent firms argue that the violation of ethical standards and lack of independence highly reflected under grade B and C audit firms respectively

In general from the above data analysis it is possible to conclude that the unethical audit practice of private audit firm and lack of independence from their client doesn't have a major difference among the categorization of audit firm as grade A, B and C. So based on the analysis of the survey result, most of private audit firms engaged in Ethiopia has been involved in the violation of ethical

audit practice and lack their independence from their client when they provide the professional service to the public

4.7 The effect of non-compliance of code of ethics and independence on audit quality.

Under the above section the research discussed on the status of code of ethics and independence of private audit firm, the source of threat that lead audit firms for non-compliance on code of ethics and loss their independence, status of safeguard mechanisms applied on audit industry by regulatory and professional bodies and the audit firms, factors that lead audit firm to non-compliances on professional ethics and other issues related to code of ethics of professional accountant and independence.

4.7.1 Audit Quality

Now, this section has discussed the effect of non-compliance of code of ethics and lack of independence on the quality of audit work and audit report issued by private audit firms. As stated on the literature review many scholars including the audit quality framework of IFAC issued on 2014 discussed the quality of audit and factors that affect quality of audit and audit report. Even if, until now there is no universally acceptable definition on audit quality and determinate that affect the quality of audit but different researcher and scholars issues many research paper to define audit quality and shows determinate that affect the quality of audit.

This section interrelates how factors that contribute for the non-compliance on code of professional ethics and independent also negatively affect the quality of audit work and audit report and identify factors used as a determinant of audit quality based on the inputs obtained from various researcher included on literature review.

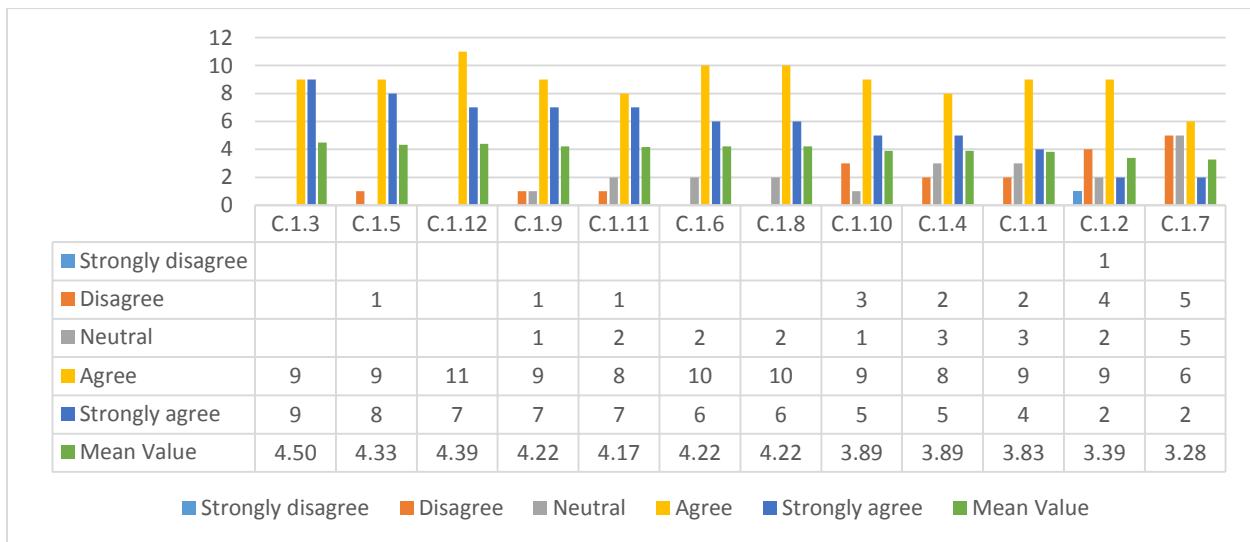
Arezoo, Aghaei, Jueming Bing, and IFAC quality framework use variables like non-compliance with GASSB or IAS, audit firm size, audit tenure, auditor independence, auditors personal characteristics, audit firms quality control and review procedures, audit fee, audit tendering system of the country, lack of well-established financial reporting standards, allocating inappropriate time for individual audit engagement and applying inappropriate audit process of an individual audit engagement, and many other variables which is highly related to independence and code of ethics as a determinate of quality control. The

research use some of the above variables which related with professional ethics and independence to show the effect of code of ethics and independence on quality of audit.

On the questioner, variable C.1 ask respondent firms whether unethical behavior of audit firm’s has an effect on the quality of audit work and audit report issued by audit firms. From the total 18 respondent firm 12 which account for 66.7% of the sample size select “Yes’ to confirm failure in code of conduct and loss of independence affect the audit quality. This output also supported or reflected on other research paper and study made by individual in Ethiopia and other scholar on this field at different country. The questioner also includes twelve variables (C.1.1 to C.1.12) which is highly related to both audit quality, code of ethics and independence.

As shown in the figures below expect variables C.1.2 and C.1.7 which is audit firm size/ type and audit firm tenure, more than 70% of the respondent firm agree with all other variables are affect the quality of audit. From these factors variables like audit fee (C.1.3 Mean value 4.5), applying inappropriate audit process of an individual audit engagement (C.1.12 Mean value 4.39), audit firms quality control and review procedures(C.1.5 Mean value 4.33), auditors skill and expertise (B.1.6 Mean value 4.22), auditor independence (C.1.8 Mean value 4.22), audit tendering system of the country (C.1.9 Mean value 4.22) and allocating inappropriate time for individual audit engagement (C.1.11 Mean value 4.17) the mainly affect quality of audit in the audit firm environment.

Figure 11 Source of unethical practice that affect audit quality

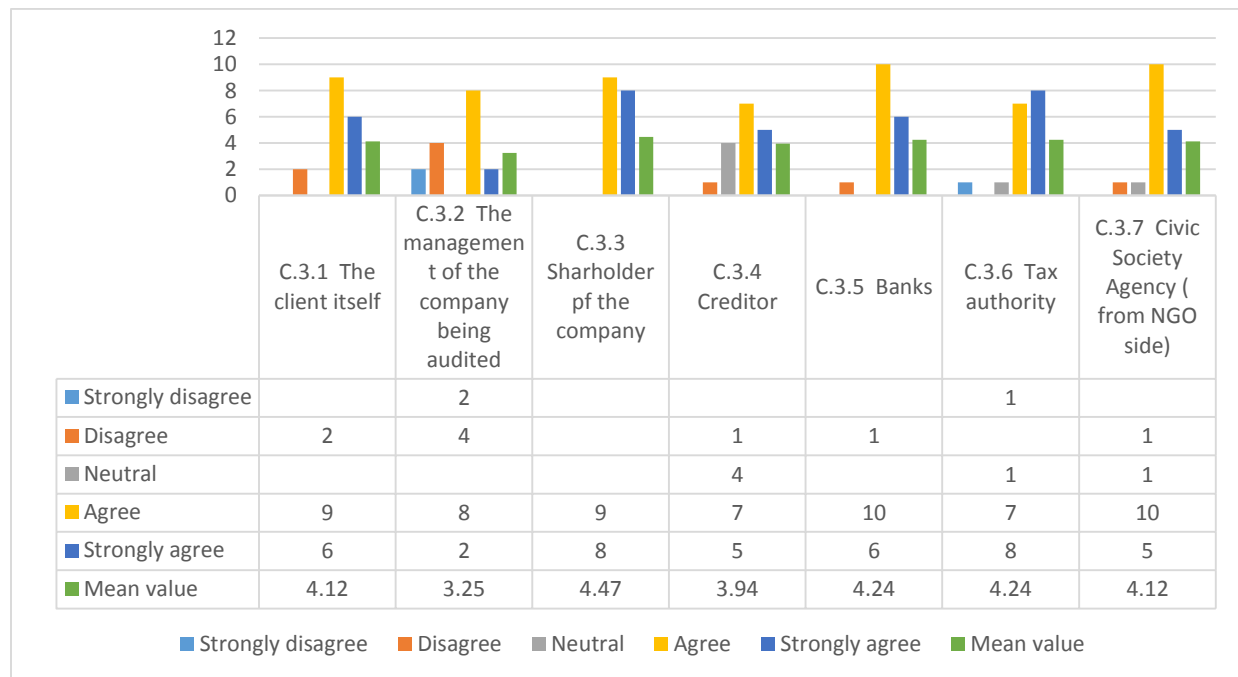


Source: SPSS output from survey data, 2015.

4.7.2 Stakeholder affected by unethical behavior of audit firms

As stated on the literature review the responsibility of external auditor is to act on the interest of the public rather than the needs and expectation of the client. The word public refers to all stakeholder that directly or indirectly used and/or affect by the output of the audit financial statement. These user of audit financial statement includes shareholder of the audited company has the principal interest on the report. Manager, institutional investor, creditor, tax authority and banks have a secondary interest on this report. So the effect of lower quality audit report directly or indirectly affect the decision of all these users. For this research and on the context of Ethiopia financial reporting environment the audit company, management of the company, shareholder of the company, banks, tax authority, civic society agency and creditor are the main user of audited financial statement. The figures below illustrated the details results of respondent firms response on variables C.3.1 to C.3.7 which used to identify user of audited financial statement that highly affected by lower quality audit report

Figure 12 Stakeholders affected by unethical audit practices



Source: SPSS output from survey data, 2015.

As shown in the figure, 17 respondent firm which accounts for 94.44% of the respondent firm argue that, as a primary interest on individual company, shareholders, Denoted as variables C.3.3, are the most affected by lower quality audit. The main value of this variable is 4.47 this implies that responses of most respondent firm fall between “agree” and “strongly agree” scale measurement. Other variables like banks and tax authority having a mean value of 4.24 for each and civic society agency and the client company itself having mean value of 4.12 each is the second and third category of user of financial statement that affect by low quality audit respectively. The creditors and management of audited company those that does not affected by low quality of audit report.

4.7.3 The confidence and credibility of audit report on the public.

As the quality of audit report, the level of independence and compliance of professional ethics of private audit firm decrease, the confidence and credibility of public on audit and other assurance service also highly deteriorates though time. This research also study the level of credibility and confidence of the public on the assurance service provided by private audit firm and factors that lead the public to loss their confidence and credibility on work of private audit firms. These two issues are assessed based on the response of the audit firm on their expectation and feedback obtained from the public and user of financial audited financial statement. As stated on scope section, this research does not collect data from user of audited financial statement and other who involved on the professional.

Table 7 Public confidence and credibility on auditors.

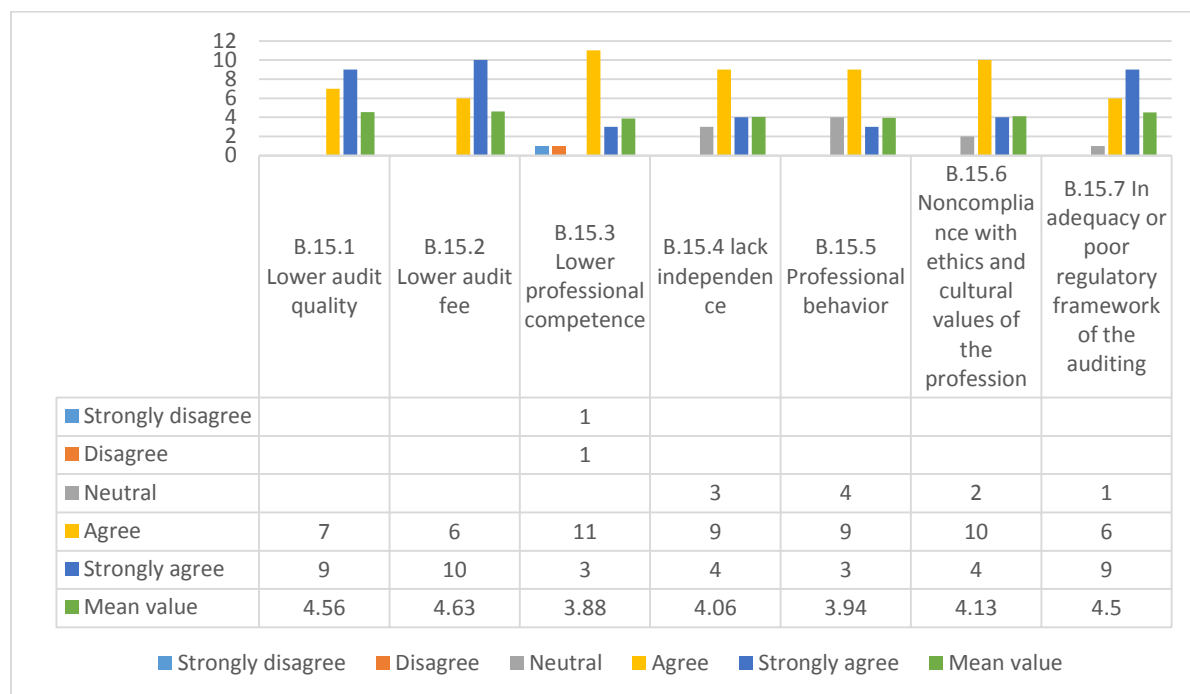
Variables	Yes		No		Mean value
	No	% age	No	% age	
B.15 Do you think that the auditing profession in the country has maintain its confidence and play role in the country social and economic environment to the public	2	11.10%	16	88.90%	1.89
C.2 Do you think the current status of private audit environment is credible or provide a reasonable assurance to users of audited financial statement issued by those audit firms engaged in public practice	3	88.90%	15	83.30%	1.83

Source: own computation.

As shows on the above table, the mean value of variables B.15 and C.2 is 1.89 and 1.83 respectively, moreover 88.9% for the responded firm for variable B.15 and 83.3% of the respondent firm for variable C.2 select “No” to expresses their opinion on the lack of confidence and credibility public on audit firms. On the other hand only 11.1% and 16.70% of the respondent firm for variables B.15 and C.2 respectively select “Yes” to confront the lack of confidence and credibility of the publics on audit firms. This indicate that most of the audit firms argue that the public does not have a confidence on audit profession in their role in the country business and economic environment and also the profession does not provide a reasonable assurance to user of audited financial statement.

The research also identified variables that lead the public to loss the confidence on the work of audit firms. Based on literature review and inputs obtained from preliminary discussion with some sample audit firm and chartered certified accountants variables from B.15.1 to B.15.7 had been used to identify variables that affect the confidence of public on private audit firm.

Figure 13 Factors affect confidence and credibility of audit firms



Source: SPSS output from survey data, 2015

As shown on the above figure, lower audit fee and lower audit quality having a mean value of 4.63 and 4.56 respectively. This shows 89% are the strongly agreed with these variables as main factors that affect the public confidence on private audit firm. Other factors like in adequate or poor regulatory framework on the auditing profession, lack of independence, noncompliance with ethics and cultural values, lack of profession behavior and lower professional competence and score a mean value of 4.5, 4.13, 4.06, 3.94 and 3.88 respectively, this shows more than 75% of the respondent firms agree with these variables as a main factors that affect the public confidence on private audit firm.

The researcher also ask some additional question for of those respondent audit firm that select strongly agree scale on low audit fee and low audit quality as main factors for loss of public's confidence. They argue that sometimes the audit fee quoted for one year financial statement audit may not cover all necessary costs like salary and per diem that can be incurred related to specific engagements. So in order to manages and reduced such costs, firms extremely cut or even cease the quality control tools like assigning appropriate number and qualified staff, and other quality control set and standards set by ISSAB. This issue also clearly noticed by the client and other user of audit financial statement. Based on this facts when clients get low audit fee offer for the assurance service, they don't have the confidence on quality of work and doubt on assurance service provided by such firms at a scratch.

4.8 The role of regulatory and professional bodies on the audit profession.

As stated on the problem statement of this research, the study made by IMF and World Bank "Reports on Observance of Standards and Codes (ROSC) "on 2007 and other researcher like kasahun Galo, Desalagn Getie and Amsalu Gelaneh, state that due to broader responsibility, lack efficiency and capacity of OFAG and lack mandate, efficiency and capacity of EPAAA, both regulatory and professional bodies are not able to monitor and make an effort to avoid the unethical behavior and independence problems of private audit firm. Moreover both institution does not implement any audit quality programs even recommended by those the above researcher. This research assess whether this problems and inefficiencies are still there or improvements are made on this regards.

Variables D.1 and D.2 are used to assess the position and argument of private audit firms on the capacity and effeminacy of OFAG and EAPPP in performing their duties’ and responsibility to keep and apply the code of professional ethics issued by OFAG itself and other international bodies like IESBA in the audit environment of the country.

Table 8 The role of regulatory and professional body

variables	Yes	No	mean value	% age for " No" response
D.1 Do you believe that OFAG who is the regulatory body of the professions has made an effort for proper implementation of code of ethics issued on 2010 itself	0	18	2.00	100%
D.2 Do you believe that EPAAA has made any effort on the compliance of professional ethics in the audit industry	1	17	1.94	94.40%

Source: own computation.

As indicates on the table above almost 100% of the respondent firms agree that both OFAG and EPAAA does not made any effort to avoid the unethical behavior and lack of independence reflected on private audit firms. Moreover they does not implement their duties and responsibilities given by the proclamation and charter respectively.

In general it is possible to conclude that the role of both OFAG and EPAAA as a regulatory and recognized professional accounting and auditing body respectively still limited and does not made any changes and also there is no improvement on their limitation and weakness identified by different researcher IMF and World Bank research results.

4.9 The expectation of private audit firm on the new financial reporting standard.

As stated on the research objectives and research question, one of the objective of this research paper is to check the response of private audit firm on the issuance of new financial reporting standard proclamation 847/2014 regarding to resolving unethical behavior of private audit firm and lower audit quality and made an overall review both the proclamation no 847/2014 and regulation and regulation No 322/2014 that is related to professional ethics and audit quality

Table 9 Audit firm expectation from new financial report standard.

variables	Yes	No	Mean value	% age of 'Yes' response
E.1 Do you believe the issuance of this financial reporting standard by Ministry of council on December, 2014 have any contribution on the resolve the ethical behavior problem of audit firms	14	4	1.22	77.80%

Source: own computation.

As stated on the above table 14 respondent firm which is 77.80% of the sample size argue that the new financial reporting standard proclamation issued by Ministry of Council on December 2014 will have a contribution on resolving unethical behavior reflected on private audit firms. This mean value of the respondent firm response also 1.22 which is close to 1 that denoted as 'Yes' on the research questioner.

4.9.1 Review of Financial Reporting Proclamation

The research review the new financial reporting proclamation no 847/2014 which is related to auditor code of ethics and audit quality programmer the can be implemented though different regulation and directive.

Article 4 of the proclamation says The Accounting and Auditing Board of Ethiopia (AABE) will established by regulation to be issued by the council of Ministries. On January 14 2015 Regulation No. 332/2014 "Establishment and determination of the Accounting and Auditing Board of Ethiopia "was issued to establish the board.

Article 4 sub article 2 deals with the power and duties of the AABE, from many duties and power included under this sub article, the board will oversee the professional accountancy bodies, conduct quality assurance review of public auditors and monitor audit firms whether their activities complied with the applicable code of ethics.

Article 5 and sub articles 1 stated that reporting entities should apply one of the following financial reporting standards when preparing financial statement

1. International Financial Reporting Standard (IFRS) for large reporting entities.
2. International financial reporting standard for small and medium enterprise (IFRS for S&M)
3. International Public Sector Accounting standard applicable to charities and societies.

IFRS and IFRS for small and medium enterprise issued by the International Accounting Standards Board (IASB) and International Public Sector Accounting Standard (IPSAS) issued by International Public Sectors Accounting Standards Board, this indicates that from forward the country have its own financial reporting standards applicable for all reporting entities like private sectors and NGO

Article 12 deals with the applicable auditing standard the will be implemented by the audit firm in the country. As per sub article 1 of this article the auditing standards to be used by auditors in Ethiopia shall be the International Standards for Auditing issued by international federation of accountants (IFAC) or its successor International Auditing and Assurance Standard Board (IAASB)

Article 25 deal with Quality Assurance Review, Sub article 1 says the board or any agency assigned by the board to authorize in writing has an authority to review the practice of public auditors. Article 27 Public Interest Oversight, sub article 1 says any professional bodies has to maintain and promote the highest standard and business conduct on the professions.

Article 33 Independence of Auditors, Sub article 6 deals with an auditor shall be independence both in mind and appearance in order to avoid influence that affect his professional judgment to act with integrity and exercise objectivity and professional skepticism.

Article 34 Conflict of interest requires, an individual or audit firm should assess whether there is a conflict of interest or lack professional independence with reporting entity in which service is provided. If there is a conflict of interest the auditor shall withdraw from auditing that reporting entities

In general the proclamation raise the main issues related to audit quality and procedures, independence, professional code of conduct and other issues related to auditing which is not related to our topic.

4.9.2 Review of regulation no 322/2014

Regulation No 322/2014 “Establishment and determination of the Accounting and Auditing Board of Ethiopia “was issued by ministry of council to announce the establishment of Accounting and Auditing Board of Ethiopia, as autonomous organ having its own legal personality. The Board is accountable to the Ministry of Finance.

As per Article 5 of the regulation the Board have the following objectives,

1. Promote high quality reporting of financial and related information by reporting entities,
2. Promote the highest professional standards among auditors and accountant.
3. Promote the quality of accounting and auditing service of the country.
4. Ensure that the accounting profession is used in the public interest.
5. Protect the professional independence of the accountant sand auditors

Article 6, Power and duties of the board, stated that in addition to the power and duties of the board specify on proclamation 847/2014 article 4. The AABE has given around 16 additional power and duties included under article 6 of regulation 322/2014.

From those power and duties stated under article 6 sub article 1 of the regulation 322/2014 AABE will establishment, publish and review of a Code of Professional Conduct and Ethics for certified public accountant and certified auditors which shall be consistent with code of ethics and professional code of conduct issued by International Ethical Standard Board of Accounts (IESBA) In addition to this, sub article 12 on the same article also state AABE have a power to take a disciplinary action on certified auditor and accountants for any breach of the code of professional conduct and ethics issued by the board.

Sub article 11 of article 6 state AABE establish requirement for continuing professional training programs and sub article 13 under this article also state the power and duties of AABE in implementing a sound quality assurance mechanisms to ensure high quality audit practices

To conclude the overall idea of both the proclamation and the regulation, the AABE will implement and arrange all professional code of conduct and ethic and quality assurance mechanism on both accountancy and auditing sector. Those activities stated on the proclamation and regulation will totally change the current accounting and auditing environment of the country.

4.10 Analysis of open ended question

Section three of the questionnaire includes open ended questions were prepared for the respondents firms. Open-ended questions are useful when the researcher want to see how respondents discuss an issue or discover what is on their minds without imposing an agenda (Lake and Harper, 1987 cited in Pitchaya et al., 2010). Moreover open ended questioner permit an unlimited number of possible answers and unanticipated finding can be discovered. It give an opportunity to the respondent to answer in detail and can clarify their responses.

Although there was no a comprehensive overview of responses for the questionnaire from the respondents, the researcher tried to see and analyses what the majorities of the respondents agreed on the open ended questions. The researcher does not account each and every responses due to the fact that many unique responses from the respondents firms.

The first open ended question ask the respondent firms regarding the main problems that lags OFAG and EPAAA to play active role in the audit industry to maintain and monitor the professional ethics and quality of audit performed by audit firms. As it is mentioned above, there was no comprehensive overview of responses for this questions. Most of the respondent agree that as regulatory body of the profession, because it is an as additional responsibility apart from auditing the government organization, OFAG does not play a vital role in the industry. Some of the respondent argue that OFAG is not well structured and does not have financial and personal resource to monitor and control the activities of private audit firms. Others say OFAG doesn't set and implement standard framework and measurement of audit firms' capacity and there is no any proper communicate channels with audit firm in the code of ethics and other activities related to audit environment.

In regard to EPAAA, most of the respondent firm agree that EPAAA does not have a mandate to establish ethical standard but the members of the association are not committed to strengthen the ethical standards of the profession that already issues by OFGA, other group of the respondent firm say the board member of the association engaged in their own personal activities related to audit service rather than giving attention to the management of the association and the development of the profession. Even some of the member of the board violate the ethical standard in their personal business. Some of the respondent firm say majority of the member of the professional is authorized accountant which doesn't have enough knowledge about professional

ethics and it is a challenging task to solve the issue of ethics under this circumstance. Few respondent firms says it is a dormant as compared to other professional association operated in the country.

The second open ended question asked to the respondent firm, is a possible suggestion the can be improve or change the unethical behaviors of the audit firm and reduced or avoid the problems of lower audit quality resulted by unethical behavior of the audit firm. The following comments are given by most of the respondent firms

- 1) Establish strong, independent and active regulatory body regulate the accounting and auditing profession
- 2) Establish or enhance the capacity and power of the existing professional association that monitor and enhance awareness of the professional ethics.
- 3) Set an audit standard and guideline and disseminate to all audit firm in the country for their use
- 4) Maintain normal and healthy competition between audit firm regarding to audit fee and the approaches of getting new client. Moreover set a minimum audit fee thresholds an individual audit engagement
- 5) Audit firms should include ethical requirement section in their working paper and auditor performing the audit should sign on it.

Few of the respondent firm say OFAG or the regulatory body should create a means of whistle blowing for firms who behave unethically and reward the whistler.

The third and fourth open ended question asked to the respondent firm to provide overall comments on the ethical behaviors and quality of audit report performed by private audit firm respectively. For ethical behaviors, majority of the respondent firm argue that most of private audit firms in Ethiopia doesn't practiced ethical behavior. Some of the respondent firm say it is extremely hot issue for the profession, the situation itself did not allow for those who want to practice ethically moreover most business did not know the value and relevance of audit and auditor is highly influence by accountants or finance manager who prepared the financial statements that lead to unethical decision making. In addition to this, there are auditors who doesn't care about their profession and made a lot of unethical activities to maintain their client or to get more money.

One of the respondent firm express his feeling as currently private audit firms are in a position of cash cow like investor business strategic position and most of audit firms does not concerned about the profession to be acceptable and give respect by the public. So most of private audit firms look themselves as an individual investor who give priority for their financial interest and benefit rather than keeping the public interest required by the profession.

On the last question of audit quality, most of the respondent firms say the quality of audit performed by most of private audit firms are deteriorating from time to time and the report issued by them are lower quality report. Some of the respondent firm argue that the presentation, concentration area of the report and uses of inconsistent report format form client to client within audit firm, lack of standard opinion page across the audit firms and presentation of notes to the account are some of the weakness reflected on the audit quality in the industry.

In general based on the responses on open ended question from the respondent firms it is possible to conclude that private audit firms are not perform their activity in ethical manner and the quality of audit performed by them are lower quality which affect the decision making of user of audited financial statement and loss the public confidence. Moreover the regulatory and professional bodies of the industry are not able to monitor the audit firm activities and keep the code of ethics, public confidence, and quality of audit performed by private audit firm.

CHAPTER FIVE

5. CONCLUSION AND RECOMMENDATION

The aim of this chapter is to provide conclusion regarding the empirical findings and analysis of the research study. Finally the research will provide a recommendations on findings identified under this research.

5.1 Conclusion.

The aim of this research was to assess the current status of code of professional ethics and independence of auditors for private audit firms engaged in Ethiopia and its overall effect on audit quality. Moreover the research also highlights the role of regulatory and professional bodies in the implementation of code of ethics, independence and related audit quality aspects affected by unethical acts. It was questioned whether the private audit firms are providing their professional service to the public by maintaining their independence and in compliance with the professional code of ethics. Moreover providing quality audit service based on the interest of the public rather than fulfilling the interest of the client is the current issue in the audit environment. The researcher decided to assess the implementation of professional code of ethic and independence, identify those fundamental principles not complied by the audit industry, the source and type of threats that affect the non-compliance of professional ethics, identify factors that affect and lead private audit firm not to be independent from their client, the effect of non-compliance of professional ethics against quality audit service provided by them, the role of regulatory and professional ethics on the current audit environment and at last the expectation of private audit firm on the new financial reporting proclamation.

In order to reach on the findings, the researcher used 20 audit firms out of 74 audit firms engaged in the country and distributed a questioner for them to collect primary data. The researcher selected these firms based on stratified random sampling technique based on the classification of audit firms made by OFAG as grade A, B and C. The responses obtained from these firms were analyzed using SPSS.

The findings on the data analysis shows that the most of private audit firms do not comply with the fundamental principles of professional ethics for professional accountants and they are not independent when providing their professional service to the public. This professional ethics and independence is affected by self-interest, self-review and familiarity type of threat and the main source of these threats are lower audit fee, lack of proper assessment and making professional clearance before accepting new client, making assessments to identify any conflict of interest between the firm and client, performing other non-assurance service, having family, financial and personal relationships with client and having long association of senior personnel with an audit client. Moreover these private audit firms, regulatory and professional bodies do not apply the most of the safeguards mechanism recommended by international professional bodies and OFAG itself.

The effect of such unethical behavior also results in a lower audit quality which directly affects the credibility and confidence of public on the assurance service provided by private audit firms. Moreover as indicated on this research analysis and many others research's both the regulatory and professional bodied existed in the country are dormant in performing their responsibility and do not provide visible contribution to avoid such unethical behavior and low audit quality report issued by the most of private audit firms. In contrast to this the newly issued of financial reporting proclamation and its subsequent regulation and directive give a hope for participation of the audit industry in reducing or avoiding all those problems. This unethical behavior and non-compliance with professional ethics and independence, lower audit quality, loss of credulity and public confidence lead private audit firms not to properly perform their work in a distinguishing mark of the profession which is "its acceptance of the responsibility to act in the public interest"

5.2 Recommendation

The research topic discussed under this paper is a hot issue in the current audit environment of the country. As stated on the introductory chapter the auditors should perform their responsibility to act in the interest of the public rather than to satisfy the interest of their client. So each and every decision made during the audit process should take into account the interest of the public which incorporate all those parties directly and indirectly uses the output of the audit firms, mostly their audit report to make various business and investment decision and also use the information

included in the audit report in different ways. Based on the findings of this research the following feasible recommendations has been forwarded.

1. Private audit firms should provide their professional services to the public in compliance with the rules and regulations stated by the regulatory bodies and being independent from any pressures made by third parties including the client.
2. The newly established board, Accounting and Auditing Board of Ethiopia, should prepare a well-organized code of professional conduct and ethics that strictly applied by all private audit firm in their day to day operation.
3. The Board should set effective and efficient follow up system to confirm the private audit firms are properly implementing and complying with the code of professional conduct and ethical standards in their day to day professional service provided to the public. Moreover, there should be a serious, clear and reasonable disciplinary mechanism for those audit firms that do not comply with the code of professional conduct and ethical standards.
4. The audit firms and EPAAA in collaboration with the AABE should establish a strong, active power of voice professional associations or merge and reorganize all existing local professional association as a one and strong professional association.
5. The board, professional associations and the audit firms themselves at their level of responsibility should set a safeguard mechanism which is consistent with recommended safeguard mechanisms issued by international professional bodies like IESBA and ACCA
6. The audit firms should stop unnecessary and unethical competition to get a new client and avoid the major source of threat reflected on the audit industry like low audit fee, client acceptance mechanisms, providing other assurance service unless proper safeguards system can be set and other sources of threat that deteriorate the independence and damaged the ethical standards and principles.
7. Audit firms should follow proper client acquiring procedures like formal tendering and other which is acceptable by the regulatory and professional bodies.
8. As indicated on the research finding, principals of the audit firms and auditors who do not have a professional qualification are the main group of people who violate the fundamental principles of professional ethics and lacking independence form their client when providing their professional service. So principal and/or partners of private audit firms should keep and

obey all principal of code of conduct and ethical principle in order to maintain the reputation of the profession and the industry as a whole.

9. Private audit firm should recruit competent and professional employees having the necessary qualification demanded by the audit industry and also be sure that their employee obey and comply with all ethical standards, rules and regulation of the company and the regulatory body of the industry as well.
10. The research finding also indicates that there is no difference in violation of the professional ethics and independence principles among grade A, B and C audit firms category. So all audit firms in each categories should comply with the code of ethics and independence principles issued by regulatory and professional association.
11. Regulatory and professional bodies should set strong audit quality control, high standard audit practices and enforce all audit firm to provide their professional service based on such quality control criteria. Moreover audit firms should perform their professional service based on International Standard of Auditing as stated on the Proclamation 847/2014 and implement International Standard on Quality control issued by IFAC for any service provided to the public.
12. In order to revert back the confidence of the public on the profession and enhance the credibility of the service provided to the public, private audit firms should provide their professional service with a highest level of quality, independence and high professional ethics required by the profession and regulatory bodies.

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Appendices A-Questioner

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

The purpose of this questionnaire is to gather relevant data that will be used in undertaking a study on the topic **“CURRENT STATUS OF CODE OF PROFESSIONAL ETHICS AND INDEPENDENCE OF PRIVATE AUDIT FIRMS ENGAGED IN ETHIOPIA AND ITS OVERALL EFFECT ON AUDIT QUALITY.”** as a partial fulfillments of the requirements for the Masters of Accounting and Finance .

The major objective of the study is to explore current status of professional ethical behaviors of Ethiopian private audit firms on the current audit environment of the country and its effect on quality of audit performed by these audit firms. Accordingly, this questionnaire is designed to collect data whether Ethiopian private audit firms has been properly applying, following and committing themselves to obey for implementation of the rules and regulation issued on Professional Ethics by Office of Federal Audit General (OFAG) and other international and local professional bodies involved in the auditing and accounting profession like ACCA, CPA, EPAAA and others.

As an audit practitioners I hope you will have a good understanding on the current audit environment of the country and the effect of unprofessionalism on the audit quality. Therefore, your cooperation in filling out the questionnaire carefully and genuinely, apart from contributing towards the successful completion of the study is essential input towards the creation of a levelheaded knowledge regarding the aforesaid issue.

Finally, I want to kindly assure you that the items included in this questionnaire are not designed to test your ability and that all the information you provide will be confidential & will exclusively be used for research purpose.

Thank you for your kind cooperation in advance!

Yonas Fekede

SECTION ONE: BACKGROUND INFORMATION.

1. Business type of the firm.

Individual Partnership Private Limited Company

2. Grade of the Firm

A B C

3. No of partners of the Firm

- 2
- 3
- 4
- 5
- More than 5

4. Years of service in the industry

- 1-5 years
- 6-10 years
- 11-15 years
- 16-20 years
- >20 years

5. No of staff employed in the firm

- 1-10
- 11-20
- 21-30
- 31-40
- >40

SECTION TWO: THE STATUS OF PROFESSIONALISM/ ETHICAL STANDARDS OF PRIVATE AUDIT FIRMS

1.1 Do you think that private audit firm that engage in Ethiopia properly follow and apply with all ethical standards issued by International Ethics Standards Board for Accountants (IESBA) or Office of Federal Auditors General of Ethiopia. OFAG.

Yes No

If your answer on the above question is No, which of the following fundamental ethical standard listed below has not been complied by private audit firm engaged in the country. (Tick)

	Agree	Disagree
1.1.1 Integrity: be straightforward and honest in all professional/business relationships and do not provide false, misleading or incomplete information		
1.1.2 Objectivity: members do not allow bias or conflict of interest in business judgement and avoid conflict of interest and influences.		
1.1.3 Professional competence and due care: Professional accountants has duty to maintain professional knowledge and skill at appropriate and required level.		
1.1.4 Confidentiality: Professional accountants should not release any client information without appropriate and specific authority obtained from the client		
1.1.5 Professional behavior: Professional accountant should comply with relevant laws and regulation and avoid actions discrediting the profession.		

1.2 Are private audit firms engaged in Ethiopia has a set a system to identify threats that affect their fundamental ethical behavior and a required safeguard's for those identify treats

Yes No

1.3 Are private audits firm has a capacity to evaluate the level of ethical threats they face during the auditing engagement process.

Yes No

1.4 Which types of threats for fundamental ethical behavior have you experienced, witnessed and are very prevalent in the audit industry set by professional and regulatory bodies. (Please Tick applicable)

	Strongly agree	Agree	Neutral	Disagree	Strongly disagree
1.4.1 Self-interest threat: financial or other interests of members or their close family.					
1.4.2 Self-review threat: Auditor has to re-evaluate work performed by himself.					
1.4.3 Advocacy treats: The auditor is asked to promote the client's position or represent them.					
1.4.4 Familiarity threat: Auditor is too sympathetic or trusting of the client because of a close relationship with them					
1.4.5 Intimidation threat: intimidates the auditor to give an unqualified opinion otherwise not re-appoint him.					

1.5 Which of the following possible sources of treats that leads professional accountants not to act ethically highly reflected on the private audit environment of the country. (Please Tick applicable)

	Strongly agree	Agree	Neutral	Disagree	Strongly disagree
1.5.1 Accepting client without proper client assessing techniques used like illegal activities, dishonesty or questionable financial reporting practices.					
1.5.2 Making engagement without having enough competency to perform the engagement e.g. lack of understanding of the nature of the client’s business, obtain relevant regulatory requirement and assigning insufficient and inappropriate staff and others					
1.5.3 Set an audit fee which is not enough to perform the engagement in accordance with applicable standards without creating any self-interest and others treats?					
1.5.4 Accepting a new appointment as an auditors for new client without making any professional clearance to understand the reasons beyond change in appointment of the existing audit firm.					
1.5.5 Not performing reasonable assessment to identify any conflict of interest between the client and the firm when they provide a service to the public like audit service two competing clients, other activities that lead to a conflict of interest and leads to treats that affect compliance with fundamental principles of ethics					
1.5.6 Making a second opinion on beyond the work of another audit firms.					
1.5.7 Made any advertising or other form of marketing and promotional activities to obtain a new client					
1.5.8 Making exaggerated claims for services offered, qualifications possessed, or experience gained or undermining references or unsubstantiated comparisons to the work of another					
1.5.9 Accepting unreasonable gift and hospitality by audit firms and/or employee of audit firm which isn’t informed to third parties and/or have influence on the decision-making on the audit activities.					
1.5.10 Holding the monies or other asset of their client that may leads to treats of self-interest treats to objectivity					
1.5.11 Performing other non-assurance service like book keeping, tax advisory, financial reporting, valuation that are not accepted by the profession to do so					

1.6 Do you believe that audit firm engaged in Ethiopia are independent in mind and in appearance?

Yes No

If no, which of the possible factors that can be lead audit firm not to be independent. (Please Tick applicable)

	Agree	Disagree
1.6.1 Having financial interests with the audit client		
1.6.2 Having business relationships with client		
1.6.3 Having family and personal relationships with client		
1.6.4 Employment with an audit client		
1.6.5 Temporary staff assignments to audit client who involve and influence on preparation of financial statement		
1.6.6 Providing a service as an employee, officer or director on an audit client		
1.6.7 Serving as a director or officer on the board of an audit client		
1.6.8 Long association of senior personnel (including partner rotation) with an audit client		
1.6.9 Providing non-assurance services to an audit client		
1.6.10 Handling accounting records and preparing financial statements of the audit client		
1.6.11 Providing taxation services like, compliance, planning, provision of formal taxation opinions and assistance in the resolution of tax disputes, to audit client		
1.6.12 Providing of Internal audit services		
1.6.13 Providing of recruiting services to the audit client		
1.6.14 Receiving audit fees from a client or client group which represent a large proportion of a firm's total fees,		
1.6.15 Not collecting audit fees from an audit client for a long time and start the next audit		
1.6.16 Determine contingent fees based on the outcome or result of a transaction or audit work		
1.6.17 Accepts significant gifts or hospitality by firm or a member of the assurance team		
1.6.18 Other (Please list on the space provided below)		

1.7 Do you have seen any safeguards set by local regulatory and professional bodies of auditor as per the recommendation made by International Ethics Standards Board for Accountants IESBA and other international professional bodies?

Yes No

If yes, which of the following recommended safeguards are set by Local regulatory or professional bodies (Please Tick applicable)

	Yes	No	Do not know
1.7.1 Educational, training and experience requirements for entry into the profession			
1.7.2 Continuing professional development requirements			
1.7.3 Corporate governance regulations			
1.7.4 Professional standards Custody of Client Assets			
1.7.5 Professional or regulatory monitoring and disciplinary procedures			

1.8 Which of those safeguards set by Local regulatory or professional bodies are properly implemented by audit firms

1.9 Do you have seen any safeguards set by audit firms as per the recommendation made by International Ethics Standards Board for Accountants (IESBA) and other international professional bodies?

Yes No

If yes, which of the following recommended safeguards audit firms

	Yes	No	Do not know
1.9.1 Firm leadership that stresses the importance of independence and fulfill the expectation of public interest			
1.9.2 Set policy and procedures to monitor and implement quality control,			
1.9.3 Set independence policies regarding identification of treats			
1.9.4 Rotation of audit team for an individual client within reasonable time period			
1.9.5 A disciplinary mechanism to promote compliance with policies and procedures			
1.9.6 Others (Please list on the space provided below)			

1.10 From your experience and view which of the following list bodies or individuals are responsible for the violation of professional conduct of auditors set of International Ethics Standards Board for Accountants (IESBA) and office of federal auditors General of Ethiopia. OFAG. Those who

	Strongly agree	Agree	Neutral	Disagree	Strongly disagree
1.19.1 Principal of the audit firm					
1.19.2 Chartered certified accountants does not practice audit					
1.19.3 Auditors without ACCA or other certification					

1.11 Do you think that there is high level of violation in professional auditors' ethical stance amongst category A, B or C audit firms?

Yes No

If your answer yes, which audit firms categories is highly suspected for such unethical professional behavior.

	Strongly agree	Agree	Neutral	Disagree	Strongly disagree
1.11.1 Audit firms under Grade A categories					
1.11.2 Audit firms under Grade B categories					
1.11.3 Audit firms under Grade C categories					
1.11.4 Audit firms under all categories					

1.12 Form the factors listed below, which of the following factors affect private audit firms not to fulfill their professional ethics

	Strongly agree	Agree	Neutral	Disagree	Strongly disagree
1.12.1 Lower audit fee					
1.12.2 Auditor classification by OFAG					
1.12.3 Auditors qualification and knowledge about professional ethics of audit					
1.12.4 Competition between audit firms specially on audit fee					
1.12.5 Lack of proper follow up by regulatory and professional bodies on unethical acts by audit firms					
1.12.6 Lack of well-designed and set of professional ethics for audit profession					
1.12.7 Others (Please list on the space provided below)					

1.13 From your experience, what is the current practice of private audit firm obtain new client

	Agree	Disagree
1.13.1 Formal tendering process		
1.13.2 Recommendation from third parties		
1.13.3 Family relationship		
1.13.4 Personal relationship		
1.13.5 Unfair marketing or promotion that is agonist the ethical standards		
1.13.6 Approaching client personally and		
1.13.7 Other (Please list on the space provided below)		

1.14 What is the current client selection mechanism used by private audit firms

	Agree	Disagree
1.14.1 Ethnic based client selection		
1.14.2 Religious based client selection		
1.14.3 Political affiliation based		
1.14.4 Formal selection		
1.14.5 Other (Please list on the space provided below)		

1.15 Do you think that the auditing profession in the country has maintain its confidence and play role in the country social and economic environment to the public

Yes No

If No, which of the following possible factors that affect the confidence of public, reflected on the current audit environment

	Strongly agree	Agree	Neutral	Disagree	Strongly disagree
1.51.1 Lower audit quality					
1.51.2 Lower audit fee					
1.51.3 Lower professional competence					
1.51.4 Lower independence					
1.51.5 Professional behavior					
1.51.6 Noncompliance with ethics and cultural values of the profession					
1.51.7 In adequacy or poor regulatory framework of the auditing					

SECTION THREE: THE EFFECT OF UNETHICAL ACTS OF PRIVATE AUDIT FIRMS ON AUDIT QUALITY

2.1 Do you think that the unethical behavior of audit firms has an effect on the quality of audit reported issued by them.

Yes No

From the following factors that affect the quality of audit identified by different researcher and Professional bodies, which of the factors can affect the quality of audit in the context of Ethiopia private audit environment

	Strongly agree	Agree	Neutral	Disagree	Strongly disagree
2.1.1 Noncompliance with GASSB or International auditing standards					
2.1.2 Audit firm size/ type					
2.1.3 Audit fee					
2.1.4 Auditors personal characteristics					

2.1.5	Audit firms quality control and review procedures					
2.1.6	Auditors skill and expertise					
2.1.7	Audit firm tenure					
2.1.8	Auditor independence					
2.1.9	Audit tendering system of the country					
2.1.10	Lack of well-established financial reporting standards					
2.1.11	Allocating inappropriate time for individual audit engagement					
2.1.12	Applying inappropriate audit process of an individual audit engagement					
2.1.13	Other factors affect audit quality under Ethiopia context (Please List on the space provided below)					

2.2 Do you think the current status of private audit environment is credible or provide a reasonable assurance to users of audited financial statement issued by those audit firms engaged in public practice?

Yes

No

2.3 Which of the following user of audited financial statement has been victim by such unethical acts of auditor

	Strongly agree	Agree	Neutral	Disagree	Strongly disagree
2.3.1	The client itself				
2.3.2	The management of the company being audited				
2.3.3	Shareholder of the company				
2.3.4	Creditor				
2.3.5	Banks				
2.3.6	Tax authority				
2.3.7	Civic Society Agency (from NGO side)				
2.3.8	Other stakeholder (Please List on the space provided below)				

3.1 Do you believe that Office of Federal Auditor General (OFAG) who is the regulatory body of the professions has made an effort to proper implement of ethical standard that issued on 2010

Yes

No

3.2 Do you believe that Ethiopia Professional Association of Accountant and Auditors (EPAAA) exist in Ethiopia has made any effort on the compliance of professional ethics in the audit industry?

Yes

No

3.3 If your answer on the above two question are No, as participate of the industry, what will be the main problem that lag OFAG and EPAAA to play active role on the industry to establish the professional ethics

OFAG _____

EPAAA _____

3.4 What will be your suggestions on the improvement or changes on unethical behaviors reflected by private audit firms?

4.1 Do you believe the issuance of this financial reporting standard by Ministry of council on December, 2014 have any contribution on the resolve the ethical behavior problem of audit firms

Yes

No

Overall comment on

5.1 Ethical behavior of private audit firm

5.2 Quality of audit report issued by private audit firm

Appendices B-Analysis of Questioner

Section Four Percentage indicating from “strongly agree” to “strongly disagree”, Mean value number of respondent and missing value regarding variables for professional ethics and independence of professional accountants and those audit quality variables related ethics and independence.

Code	Description	Strongly agree	Agree	Neutral	Disagree	Strongly disagree	Mean value	Valid	Missing
A.1	Business type of the firm							18	0
A.2	Grade of the Firm							18	0
A.3	No of partners of the Firm							18	0
A.4	Years of service in the industry							18	0
A.5	No of staff employed in the firm							18	0
B.1	Do to think that private audit firm that engage in Ethiopia properly follow and apply with all ethical standards issued by International Ethics Standards Board for Accountants (IESBA) or Office of Federal Auditors General of Ethiopia. OFAG.		78%		22%		1.78	18	0
B.1.1	Integrity		11%		67%		1.14	14	4
B.1.2	Objectivity		17%		61%		1.21	14	4
B.1.3	Professional competence and due care		22%		56%		1.29	14	4
B.1.4	Confidentiality		39%		39%		1.50	14	4
B.1.5	Professional behavior		11%		67%		1.14	14	4
B.2	Are private audit firms engaged in Ethiopia has a set a system to identify threats that affect their fundamental ethical behavior and a required safeguard's for those identify treats		78%		22%		1.78	18	0
B.3	Are private audits firm has a capacity to evaluate the level of ethical threats they face during the auditing engagement process		56%		44%		1.56	18	0
B.4.1	Self-interest threat: financial or other interests of members or their close family.	0%	0%	6%	56%	39%	4.33	18	0
B.4.2	Self-review threat: Auditor has to re-evaluate work performed by himself.	0%	11%	0%	61%	28%	4.06	18	0

B.4.3	Advocacy treats: The auditor is asked to promote the client's position or represent them.	0%	11%	44%	22%	22%	3.56	18	0
B.4.4	Familiarity threat: Auditor is too sympathetic or trusting of the client because of a close relationship with them	0%	11%	6%	56%	28%	4.00	18	0
B.4.5	Intimidation threat: intimidates the auditor to give an unqualified opinion otherwise not re-appoint him.	11%	17%	17%	22%	33%	3.50	18	0
B.5.1	Accepting client without proper client assessing techniques used like illegal activities, dishonesty or questionable financial reporting practices.	0%	6%	17%	50%	28%	4.00	18	0
B.5.2	Making engagement without having enough competency to perform the engagement e.g. lack of understanding of the nature of the client's business, obtain relevant regulatory requirement and assigning insufficient and inappropriate staff and others	0%	0%	33%	56%	11%	3.78	18	0
B.5.3	Set an audit fee which is not enough to perform the engagement in accordance with applicable standards without creating any self-interest and others treats?	0%	0%	11%	22%	67%	4.56	18	0
B.5.4	Accepting a new appointment as an auditors for new client without making any professional clearance to understand the reasons beyond change in appointment of the existing audit firm.	0%	0%	17%	28%	56%	4.39	18	0
B.5.5	Not performing reasonable assessment to identify any conflict of interest between the client and the firm when they provide a service to the public like audit service two competing clients, other activities that lead to a conflict of interest and leads to treats that affect compliance with fundamental principles of ethics	6%	0%	22%	50%	22%	3.83	18	0
B.5.6	Making a second opinion on beyond the work of another audit firms.	11%	28%	22%	28%	11%	2.78	18	0

B.5.7	Made any advertising or other form of marketing and promotional activities to obtain a new client	11%	28%	22%	28%	11%	3.00	18	0
B.5.8	Making exaggerated claims for services offered, qualifications possessed, or experience gained or undermining references or unsubstantiated comparisons to the work of another	6%	33%	44%	17%	0%	2.72	18	0
B.5.9	Accepting unreasonable gift and hospitality by audit firms and/or employee of audit firm which isn't informed to third parties and/or have influence on the decision-making on the audit activities.	11%	33%	39%	17%	0%	2.61	18	0
B.5.10	Holding the monies or other asset of their client that may leads to treats of self-interest treats to objectivity	17%	39%	44%	0%	0%	2.28	18	0
B.5.11	Performing other non-assurance service like book keeping, tax advisory, financial reporting, valuation that are not accepted by the profession to do so	11%	28%	44%	17%	0%	3.67	18	0
B.6	Do you believe that audit firm engaged in Ethiopia are independent in mind and in appearance?		89%		11%		1.89	18	0
B.6.1	Having financial interests with the audit client		28%		61%		1.31	16	2
B.6.2	Having business relationships with client		44%		44%		1.50	16	2
B.6.3	Having family and personal relationships with client		17%		72%		1.19	16	2
B.6.4	Employment with an audit client		56%		33%		1.63	16	2
B.6.5	Temporary staff assignments to audit client who involve and influence on preparation of financial statement		39%		50%		1.44	16	2
B.6.6	Providing a service as an employee, officer or director on an audit client		44%		44%		1.50	16	2
B.6.7	Serving as a director or officer on the board of an audit client		72%		17%		1.81	16	2
B.6.8	Long association of senior personnel (including partner rotation) with an audit client		17%		72%		1.19	16	2
B.6.9	Providing non-assurance services to an audit client		17%		72%		1.19	16	2

B.6.10	Handling accounting records and preparing financial statements of the audit client	28%	61%	1.31	16	2
B.6.11	Providing taxation services like, compliance, planning, provision of formal taxation opinions and assistance in the resolution of tax disputes, to audit client	22%	67%	1.25	16	2
B.6.12	Providing of Internal audit services	56%	33%	1.63	16	2
B.6.13	Providing of recruiting services to the audit client	50%	39%	1.56	16	2
B.6.14	Receiving audit fees from a client or client group which represent a large proportion of a firm's total fees,	22%	67%	1.25	16	2
B.6.15	Not collecting audit fees from an audit client for a long time and start the next audit	50%	39%	1.56	16	2
B.6.16	Determine contingent fees based on the outcome or result of a transaction or audit work	72%	17%	1.81	16	2
B.6.17	Accepts significant gifts or hospitality by firm or a member of the assurance team	61%	28%	1.69	16	2
B.7	Do you have seen any safeguards set by local regulatory and professional bodies of auditor as per the recommendation made by International Ethics Standards Board for Accountants IESBA and other international professional bodies?	61%	39%	1.61	18	0
B.7.1	Educational, training and experience requirements for entry into the profession	61%	39%	1.00	7	11
B.7.2	Continuing professional development requirements	11%	28%	1.29	7	11
B.7.3	Corporate governance regulations	28%	11%	1.71	7	11
B.7.4	Professional standards Custody of Client Assets	33%	6%	1.86	7	11
B.7.5	Professional or regulatory monitoring and disciplinary procedures	28%	11%	1.71	7	11
B.9	Do you have seen any safeguards set by audit firms as per the recommendation made by International Ethics Standards Board for Accountants (IESBA) and other international professional bodies?	72%	28%	1.72	18	0

B.9.1	Firm leadership that stresses the importance of independence and fulfill the expectation of public interest		6%		28%		1.17	6	12
B.9.2	Set policy and procedures to monitor and implement quality control,		22%		11%		1.67	6	12
B.9.3	Set independence policies regarding identification of treats		22%		11%		1.67	6	12
B.9.4	Rotation of audit team for an individual client within reasonable time period		17%		17%		1.50	6	12
B.9.5	A disciplinary mechanism to promote compliance with policies and procedures		28%		6%		1.83	6	12
B.10.1	Principal of the audit firm	0%	6%	11%	39%	44%	4.22	18	0
B.10.2	Chartered certified accountants does not practice audit	17%	22%	39%	22%	0%	2.67	18	0
B.10.3	Auditors without ACCA or other certification	6%	0%	22%	61%	11%	3.72	18	0
B.11	Do you think that there is high level of violation in professional auditors' ethical stance amongst category, B or C audit firms?	61%	39%	0%	0%	0%	1.39	18	0
B.11.1	Audit firms under Grade A categories	0%	100%	0%	0%	0%	-	0	18
B.11.2	Audit firms under Grade B categories	6%	0%	0%	0%	0%	4.00	1	17
B.11.3	Audit firms under Grade C categories	11%	0%	0%	0%	0%	4.00	2	16
B.11.4	Audit firms under all categories	44%	0%	0%	0%	0%	4.00	8	10
B.12.1	Lower audit fee	0%	0%	0%	39%	61%	4.61	18	0
B.12.2	Auditor classification by OFAG	6%	33%	6%	22%	33%	3.44	18	0
B.12.3	Auditors qualification and knowledge about professional ethics of audit	6%	17%	11%	61%	6%	3.44	18	0
B.12.4	Competition between audit firms specially on audit fee	0%	0%	0%	39%	61%	4.61	18	0
B.12.5	Lack of proper follow up by regulatory and professional bodies on unethical acts by audit firms	0%	0%	11%	22%	67%	4.56	18	0
B.12.6	Lack of well-designed and set of professional ethics for audit profession	6%	6%	11%	33%	44%	4.06	18	0
B.13.1	Formal tendering process		44%		56%		1.44	18	0
B.13.2	Recommendation from third parties		0%		100%		1.00	18	0
B.13.3	Family relationship		11%		89%		1.11	18	0

B.13.4	Personal relationship		0%		0%		1.00	18	0
B.13.5	Unfair marketing or promotion that is agonist the ethical standards		56%		44%		1.56	18	0
B.13.6	Approaching client personally and		17%		83%		1.17	18	0
B.15	Do you think that the auditing profession in the country has maintain its confidence and play role in the country social and economic environment to the public	11%	89%	0%	0%	0%	1.89	18	0
B.15.1	Lower audit quality	0%	0%	0%	39%	50%	4.56	16	2
B.15.2	Lower audit fee	0%	0%	0%	33%	56%	4.63	16	2
B.15.3	Lower professional competence	6%	6%	0%	61%	17%	3.88	16	2
B.15.4	Lower independence	0%	0%	17%	50%	22%	4.06	16	2
B.15.5	Professional behavior	0%	0%	22%	50%	17%	3.94	16	2
B.15.6	Noncompliance with ethics and cultural values of the profession	0%	0%	11%	56%	22%	4.13	16	2
B.15.7	In adequacy or poor regulatory framework of the auditing	0%	0%	6%	33%	50%	4.50	16	2
C.1	Do you think that the unethical behavior of audit firms has an effect on the quality of audit reported issued by them.	33%	67%	0%	0%	0%	1.67	18	0
C.1.1	Noncompliance with GASSB or International auditing standards	0%	11%	17%	50%	22%	3.83	18	0
C.1.2	Audit firm size/ type	6%	22%	11%	50%	11%	3.39	18	0
C.1.3	Audit fee	0%	0%	0%	50%	50%	4.50	18	0
C.1.4	Auditors personal characteristics	0%	11%	17%	44%	28%	3.89	18	0
C.1.5	Audit firms quality control and review procedures	0%	6%	0%	50%	44%	4.33	18	0
C.1.6	Auditors skill and expertise	0%	0%	11%	56%	33%	4.22	18	0
C.1.7	Audit firm tenure	0%	28%	28%	33%	11%	3.28	18	0
C.1.8	Auditor independence	0%	0%	11%	56%	33%	4.22	18	0
C.1.9	Audit tendering system of the country	0%	6%	6%	50%	39%	4.22	18	0
C.1.10	Lack of well-established financial reporting standards	0%	17%	6%	50%	28%	3.89	18	0
C.1.11	Allocating inappropriate time for individual audit engagement	0%	6%	11%	44%	39%	4.17	18	0
C.1.12	Applying inappropriate audit process of an individual audit engagement	0%	0%	0%	61%	39%	4.39	18	0
C.2	Do you think the current status of private audit environment is credible or provide a reasonable assurance to users of audited financial statement	17%	83%	0%	0%	0%	1.83	18	0

	issued by those audit firms engaged in public practice?								
C.3.1	The client itself	0%	11%	50%	33%	94%	4.12	17	1
C.3.2	The management of the company being audited	11%	22%	0%	44%	11%	3.25	16	2
C.3.3	Shareholder of the company	0%	0%	0%	50%	44%	4.47	17	1
C.3.4	Creditor	0%	6%	22%	39%	28%	3.94	17	1
C.3.5	Banks	0%	0%	6%	56%	33%	4.24	17	1
C.3.6	Tax authority	6%	0%	6%	39%	44%	4.24	17	1
C.3.7	Civic Society Agency (from NGO side)	0%	6%	6%	56%	28%	4.12	17	1
D.1	Do you believe that Office of Federal Auditor General (OFAG) who is the regulatory body of the professions has made an effort to proper implement of ethical standard that issued on 2010	0%	100%	0%	0%	0%	2.00	18	0
D.2	Do you believe that Ethiopia Professional Association of Accountant and Auditors (EPAAA) exist in Ethiopia has made any effort on the compliance of professional ethics in the audit industry?	6%	94%	0%	0%	0%	1.94	18	0
E.1	Do you believe the issuance of this financial reporting standard by Ministry of council on December, 2014 have any contribution on the resolve the ethical behavior problem of audit firms	78%	22%	0%	0%	0%	1.22	18	0