



Perception of Auditors on Mandatory Audit Firm Rotation and Its Effect on Auditor's Independence in Ethiopia

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on Auditors Independence in Ethiopia.

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DECLARATION

I, Tesfamichael Taddese, declare that this study entitled as “Perception of Auditors on Mandatory Audit Firm Rotation and Its Effect on Auditor's Independence”, is my own work. I have carried out the research work independently with the guidance and support of the research advisor. This study had not been submitted to any degree/diploma in this or any other institution. It is done in partial fulfillment of Msc Degree in Accounting and Finance.

Name of student: _____ Signature: _____

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CERTIFICATE

This is to certify that **Tesfamichael Taddese** has carried out his research work on the topic entitled “**Perception of auditor’s on mandatory audit firm rotation and its effect on auditor’s independence in Ethiopia**”. This work is original in nature and is suitable for submission to the award of Msc. in Accounting and Finance.

Name of advisor: _____ Signature: _____

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LIST OF ABBREVIATIONS

AABE.....	Accounting and Auditing Board of Ethiopia
EY.....	Ernst & Young's
FASB.....	Financial Accounting Standards Board
GAAS.....	Generally Accepted Auditing Standards
IASB.....	International Accounting Standards Board
IESBA.....	International Ethics Standards Board for Accountants
IFAC.....	International Federation of Accountants Committee
IFRS.....	International Financial Reporting Standards
ISA.....	International Standard of Auditing
MAFR.....	Mandatory Audit firm Rotation
OFAG.....	Office of the Federal Auditors General of Ethiopia
PCAOB.....	Public Company Accounting Oversight Board
PWC.....	Pricewater House Coopers International Limited
SEC.....	Securities and Exchange Commission
SOA.....	Sarbanes Oxley Act

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ABSTRACT

This study was conducted on mandatory audit firm rotation and its effect on auditor independence in Ethiopia as the perception on external auditors. Factors affecting the ability of auditors to remain independent include long audit tenure, financial dependence on a single audit client, non-audit services provided to audit clients and ex-auditor employment with an audit client. It is therefore timely to examine the importance of auditor independence in the provision of reliable and credible financial information. The study used 5 point likert scale questionnaire and simple random sampling techniques were given to a sample of 84 external auditors who are found at different level and to examine auditors' perceptions of the effect of mandatory audit firm rotation on auditor independence. The results of the study revealed that 80.3% of auditors agreed that MAFR could safeguard auditor independence. The results also reveal that there is a significant relationship between mandatory audit firm rotation and auditor independence. Analyses of variance (ANOVA) were also conducted to test for the possibility of confounding effects arising from participants' background and experience. None of these variables were found to have a confounding effect on the experimental results. The results also disclose that the adoption of rotation rules wasn't given enough attention among the auditing firms in Ethiopia. Further research should be considered regarding other possible recommendations for enhancing the independence of auditors. Some examples include, appointment of company auditors by the state or an independent oversight body, and introduce a government approved body to verify the auditors' work year after year to ensure they are carrying out their duties to their full capability.

Keywords: Mandatory audit firm rotation (MAFR), Auditor Independence, Accounting and Auditing Board of Ethiopia (AABE)

CHAPTER ONE

1. INTRODUCTION

As an introduction of the study, this chapter presents: background of the study, statement of the problem, research objective, research questions, scope of the study, limitations of the study, significance of the study and organizations of the paper respectively.

1.1 Background of the Study

The functions of an audit is provide to the users of financial statements with an independent opinion whether the financial statements are fairly, in all material respects, in accordance with an applicable financial reporting framework and enhance the degree of users' confidence towards the financial statements. The Generally Accepted Auditing Standards (GAAS) are developed and issued in the form of International Standards of Auditing (ISA) which required the auditor to obtain reasonable assurance about whether the financial statements as a whole is free from material misstatement due to fraud or error.

Auditors are responsible to report honestly and provide assurance to the shareholders concerning the reliability, compliance to regulatory body and accounting policies, reliability and the truth and fairness of the client's financial statement.

Mandatory audit firm rotation (MAFR) has been an issue for the last decades and is not a new idea. There has been significant interest in MAFR as a means of improving auditor independence, reducing the incidence of audit failure, improving the quality of

audit, professional due care, competitiveness of audit profession and protecting investors and other users of financial statements. Mandatory audit firm rotation would require the clients to replace their external auditor at a certain time, usually after a few years. Section 207 @ of Sarbanes Oxley Act (SOA) define the term "mandatory rotation" as the imposition of a limit on the period of years on which a particular registered public accounting firm may be the auditor of record for a particular issuer. European Union in the former European Commission EC at October 2010, issued in November 2011 requiring auditors to rotate mandatory every six years (or every nine years if the firms has joint auditors) with a cooling-off period of four years. This issued a Green paper to address financial market regulatory reform in reaction to the 2008 global financial crisis.

In the United States (US), the Government Accounting Office (GAO), which was delegated by the Securities and Exchange Commission (SEC) to study the issue of MAFR, concluded that there is no clear evidence regarding the potential benefits of a MAFR rule (GAO, 2003). However the Public company Accounting Oversight Board (PCAOB) issued a concept release in August 2011 on ways to enhance auditor independence, objectivity and professional skepticism. The concept release included mandatory audit firm rotation on as one alternative for consideration. In discussing that alternative, they did not specify or indicate a specific term (PCAOB, 2011).

Several countries currently have mandatory audit firm rotation regulation. Italy has required audit firm rotation since 1975, Brazil since 1999, and Singapore has required audit firm rotation for local banks since 2002. Numerous other countries including Austria, Canada, Greece, Spain, Slovakia, and Turkey previously required mandatory audit firm rotation and have since eliminated it due, in part, to increased audit costs (Raiborn, Schorg,

& Massoud, 2006; Johnson, 2007). Price water house Coopers, 2014 and Ernst & young 2013 article stated that MAFR reduced the quality of audit ,reduced audit committees ability ,reduced competition and restriction of free market forces , add costs and complexity to audits and goes against market consensus. Italy was, and still is, the only of the EU Member States requiring mandatory audit firm rotation. Additionally, in Italy, the Bocconi University Report indicated that, while audit firm rotation is associated with reduced audit quality, it seems to improve public confidence in corporations (Arel et al., 2005).

American institute of Certified Public Accountants (AICPA) issued a comment letter that the PCAOB refrain from imposing mandatory audit rotation. The AICPA letter supported the PCAOB'S goals to enhancing auditor independence, objectivity and professional skepticism.

Whether audit firm rotation should be made mandatory is an issue that has been debated for almost five decades in the US and around the world (Kwon et al., 2010). Proponents of mandatory Audit firm rotation have argued that a new auditor would bring to bear greater skepticism and a fresh perspective that may be lacking in longstanding auditor-client relationship. The proponents added that when a company has been a client of an audit firm for a number of years, the client can be viewed as a source of a perpetual annuity, potentially comparing the auditors' independence. However; others concluded that mandatory audit firm rotation might not be the most efficient way to strengthen auditor independence (GAO, 2003).

Ethiopia government authorities have tried to regulate some institutions so as to ensure that auditors are recruited and selected on a certain rules and regulations that have

been issued by their respective directives. National Bank of Ethiopia requires bankers to send auditors name to it annually before they get in to contract with the auditors, and the National bank approves the auditors based on the legal and professional status of the audit firms (Proclamation for Licensing and Supervision of Banking Business no 84/1994, Article 18 and Directive No.SBB/19/96). Ethiopian Charities and societies Agency on the other hand issued directives No.08/2004 saying that, auditors for Charities, societies and Non-Government Organizations (NGOs) should be elected through public tender and proper competition process. The Ethiopian Commodity Exchange Authority also has a directive that aids to regulate the independent auditors' selection and appointments for its members. Those laws and regulations show that, auditor's mandatory rotations are in place in the country, but not as clearly as the public and the stakeholders are expects. The MAFR concept is closely related to the notion of auditor independence which is considered as the cornerstone of the accounting profession and one of its most precious assets and fundamental to the reliability and credibility of auditor's reports (Mednick 1997, AICPA 1999; Levitt 2000; Public Oversight Board 1995, 1997, 2000).

The Commercial Code of Ethiopia (1960) articulated on its Article 369 that, auditors elected by the annual general meeting of subscribers may hold office for three years. In this article, although three years are stated on the code, it is not clear that whether the three years periods for auditors are maximum or not, neither it explained the minimum period that auditors should be retained. MAFR is intended to limit the number of consecutive years (e.g., 5 years) for which a registered public accounting firm could serve as the auditor of a public company (PCAOB, 2011).

The Charities and Societies Agency and the Ethiopian Commodity Exchange clearly stated that, mandatory audit firm rotation is an obligation after three years of audit services. Similarly, both of them didn't say about the minimum retention period for auditors. Audit clients are mandated to change their auditors in less than three years but not allowed to retain for more than three years. So the mandatory audit firm rotation stated on different regulation and directive in Ethiopia.

1.2 Statement of the problem

A mechanism of independent review of auditors work must be in place so as to ensure that audit firms have effective quality control instruments, but in Ethiopia such exercise is not being implemented (World Bank, 2007).

One of the reasons for financial reporting failure is known as lack of auditor independence. The arguments which could weaken auditor independence are the long term relationship and association with management and audit clients. For example Anderson had been auditing Enron's financial statements since its inception in 1985. In fact, Anderson was given permanent office space at Enron's headquarter. Anderson also share a similar culture with Enron's colleagues such as wearing the same business attire, sharing office birthdays, having lunch together and joining Enron's trips (Arel et al.,2005). This close relationship may create a conflict of interests for the auditor which can adversely affect his independence.

Accountants have acknowledged that auditor independence is important to the validity of auditors as a profession due care. The independence of auditors should be the backbone of the audit environment. Auditor independence is very vital to user's financial

reporting confidence (Arens et.al., 1999). Auditor independence is defined by (Gay and Simnett.2003) as “ability to with stand pressure from management influence when conducting an audit or providing audit-related services, so that the professional integrity of the auditor is not compromised". Independence includes the qualities of integrity, objectivity and professional skapitsm. An auditor should maintain objectivity and be free from conflict of interest in performing audit engagement quality review and risk assessment standards, the numerous reforms put into place in the wake of the financial crisis that affect the financial services sector. EC Green paper (2011) state situations where company has appointed the same audit firm for decades look unsuited with desirable standards of independence. According to the Green paper recommends that the mandatory rotation of audit firms should be considered.

Mandatory audit rotation has always been assessed as a solution to enhance auditor independence. It is argued that mandatory audit firm rotation will significantly increase auditor independence (Kousay & Hussein 2014) because the client no longer has a tactical threat of changing auditors in circumstances when they disagree with the auditor's professional judgment (Tackett et al., 2004). The auditor will not be burdened from pleasing the client's management and at the same time will reduce the auditor's concern over losing the client. Mandatory audit firm rotation would require the clients to replace their external auditor at a certain time, usually after a few years. Section 207 of Sarbanes Oxley Act (SOX) define the term "mandatory rotation" as the imposition of a limit on the period of years on which a particular registered public accounting firm may be the auditor of record for a particular issuer. SOX's reforms directly related to auditors include the establishment of the Public Company Accounting Oversight Board (PCAOB), increased

audit committee responsibilities, and mandatory rotation of lead and reviewing audit partners after five consecutive years on an engagement (Arel, et al., 2005). Breeden (2012) believed that companies should re-propose their audit engagement at least once every five or six years.

On the study made in Ethiopia, shows that both extended and short audit tenure has an impact on auditors independence and audit quality when it is considered under different threats even if the impact is worst in the case of extended audit tenure it indicated that quality of audit will be affected on the long term relationship of the auditor and its clients (Amsalu 2011). Though Amsalu tried to address the audit tenure effects on the auditors' independence and quality, his study was concentrated on the tenure of the audit in short and long period concluded than the perceptions of the auditors on the issue. On his study and this research the gap show that there are few researchers on study audit client tenure in Ethiopia. This research paper aims at partially filling this gap. This paper also expects to evaluate whether mandatory audit firm rotation could improve auditor's independence and tries to show to how auditor's perception on the mandatory firms' rotation will be influenced by demographic characteristics such as qualifications, gender, number of employees and ages of experiences.

Ethiopia laws refer to mandatory audit rotation under commercial code 1960, despite that showing is known about how auditors and other stockholders perceive the mandatory audit rotation. The study attempts to investigate how auditor in Ethiopia perceive mandatory audit rotation requirements for the purpose of performing auditor's independence. The study focus on whether all auditors equally perceive the issue in the same way.

In addition, the researcher found the MAFR is current issue in the world and debate on implementation (GAO 2003) the result on study solution for the regulatory body, therefore, this study attempts to bridge the gap left in the research by ascertaining the views of the stakeholders concerned with the auditing profession on how to enhance independence in Ethiopia. The findings from this study can then be compared with the findings of similar studies conducted in other countries around the world.

1.3 Objective of the study

1.3.1 General objective

The general objective of this study is assessing the perceptions of external auditor on mandatory audit firm rotation, and its effects on auditor independence in the context of external audit firm in Ethiopia.

1.3.2 Specific objective of the study

The specific objective of the study is addressing the following issues:

1. To look into the opinion of audit firms in Ethiopia on potential effects provided by implementing mandatory audit firm rotation (auditor independence).
2. To investigate their views in implementing mandatory audit firm rotation in Ethiopia.
3. To explore current audit appointment practices in Ethiopia.

1.4 Research Questions

In order to attain the desired objectives, the researcher initiated to study the problem based on the following research questions:

RQ1: Does mandatory audit firm rotation improve auditor independence?

RQ2: To what extent the auditors' perceptions of the effect of mandatory audit firm rotation on the auditor independence is influenced by demographic characteristics

1.5 Scope of the study

The study is confined to assess the mandatory audit firm rotation and auditor independence practice in Ethiopia. Although, there are number of parties with different perceptions on mandatory audit firm rotation and its effect on auditor's independence, moreover, the study assess perceptions of external auditors as a sample of 84 auditors in the position of principal and partner on mandatory audit firm rotation and auditor independence.

1.6 Limitations of the study

This study was not without limitations. Some of the limitations are:

- ❖ Low response rate from the questionnaire, because the respondents were very busy and they were not interested to fill the questionnaire due to insufficient time.
- ❖ The study is considered only from the view point of external auditors. The findings from the study can be generalized only to this group.
- ❖ The study may not be generalized to different countries at different stages of development or with different business environments and cultures.

- ❖ The problem of knowing the total number of auditors under each audit firms, because of that it use only licensed permission auditors such as principal and partners for sample response.
- ❖ Lack of past studies relevant to the study title in the study area.

1.7 Significance of the study

Mandatory audit firm rotation practicing is an infant stage in Ethiopia, by investigating the different benefit and challenges for the adoption of it, this study will help Auditing and accounting body and regulators through providing recommendation as well as empirical evidences. In addition, it helps to fill significant knowledge gaps about mandatory audit firm rotation and independent of auditor in Ethiopia; thereby it will give insight to researchers and students about the problem and stimulate further investigation of the issue.

1.8 Organizations of the paper

The study deals on perception of auditor in the mandatory audit firm rotation and its effect on auditor's independence in the context of Ethiopia. The structure of this study is seems like as follows. The first chapter presents the introduction part of the thesis. From this chapter, the readers can gain a general understanding and enables them to perceive how the subsequent chapters will be discussed.

Chapter two presents the literature review. It consists the theoretical and empirical studies in addition with conclusion and knowledge gap related with the current study. To conduct the general study, this chapter cuts across some interesting articles, books,

websites and some other official documents which can enable the readers to develop more understanding from the brief knowledge gained in chapter one about the central issues of the study.

Chapter three shows a clear pictures of research methodology, which reflects how the study is conducted. Under this chapter the rationality of research approach is discussed briefly. In addition to that, data collection methods, sampling techniques used, data analysis techniques employed.

Chapter four includes both data presentations and the analysis of the results which is obtained from the methods adopted. This chapter tried to relate the research questions and objectives of the study.

The final chapter, chapter five provides conclusion and recommendations based on the whole study of the paper. 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 AND HYPOTHESES DEVELOPMENT

This chapter contains both the theoretical and empirical review of the study. The theoretical framework includes definition and impact of mandatory audit firm rotation, mandatory audit rotation and auditor independence in the views of the professional regulators, the big four views respectively. In addition, it also includes empirical review of the prior studies on MAFR and its effect from different researchers in different countries.

2.1 Theoretical Review

2.1.1 Definition

As it is noted earlier, the main objective of this study is to assess mandatory audit firm rotation effect on auditor's independence, audit quality and professional due care, low balling, and competitiveness of audit profession, improve user confidence in the context of external auditors.

According to (Kousay, Hussein 2014) defined Mandatory audit firm rotation as "Mandatory audit firm rotation sets a limit on the number of years a public accounting firm may audit a company's financial statements. After a predetermined period, an auditing firm is no longer eligible to serve as the company's auditor for a set time interval and a rotation of firms is required". A mandatory audit rotation rule which sets a limit on the maximum number of years an audit firm can audit a given company's financial statements has been future as a means to protect auditor independence ,audit quality, better professional due

care ,competitiveness of audit profession and perhaps to increase financial statement users confidence.

Auditor independence is defined by (Gay and Simnett.2003) as “ability to withstand pressure from management influence when conducting an audit or providing audit-related services, so that the professional integrity of the auditor is not compromised”. Auditor independence has been analyzed based on two magnitude, which is fact and appearance. According to Alleyne et al. (2006)”independence in fact refers to the actual objective state of the relationship between auditing firms and their clients. Independence in appearance refers to the subjective state of that relationship as perceived by clients and third parties”.

2.1.2 Mandatory audit rotation and Auditor independence relationship

Presently the corporate and accounting scandals shook investor confidence, raised questions about the reliability of financial statements and the potential negative effects of long-term relationships between auditors and their clients. Some view these long-term relationships as a threat to auditor independence (Ryan et al. 2001; Walker et al. 2001; Shockley 1981). Furthermore, they assert that rotation of auditor would lead to higher quality audits since the successor auditors would review the work of the predecessors, thereby motivating the predecessors. On the other hand, others believe that long-term relationships help the auditors to better understand the unique business transactions and identify key audit risks, resulting in higher quality audits (Ghosh& Moon 2005; Myer et al. 2003; Johnson et al. 2002; Stice.1991, Knapp 1991, St. Pierre & Anderson 1984; AICPA 1992).

Audit firms with relatively longer period relationship with audit client an increased the possibility of familiarity threat (or yet friendships) forming between the audit staff members and client staff members and a decreased the possibility that the auditor will make decisions different to the prior year decisions, thereby providing a lower quality and less efficient audit. (Defond & Subramanyam.1998; Arel.2005). Proponent argue that audit firm have long term relationship greater knowledge of the company's business and industry, providing a higher quality and more efficient audit (Geiger & Raghunandan.2002).

The financial crisis, mandatory rotation of audit firms has been a subject of debate on currently, due to there are more audit failure and litigation in the early years of audit engagement. The financial reporting failures such as Enron and WorldCom and other led to the financial reporting reforms contained in Sarbanes Oxley Act of 2002. Many the audit failures and litigation issues occur in the early years of audit engagement, and thus, the longer the tenure; the audit quality will be better (Pierre St. and Anderson, 1984). Stice (1991) and Carcello & Nagy (2004) proposed that the probability of fraudulent financial reporting is highest early in the audit firm's tenure and is not substantially higher for instances of long standing audit engagement.

AICPA that audit firm rotation intended to enhance auditor independence, objectivity and professional skepticism. Oppose concept release PCAOB, however, that there is little evidence linking audit firm tenure to audit failures or lack of auditor independence, objectivity and professional skepticism. But both of them regarding to mandatory audit firm would represent a significant change in practice and would increase costs and cause disruptions for companies and external auditors.

Proponent argue that mandatory auditor rotation would impose a large burden on corporations and more auditor rotation costs that newly-appointed auditors would frequently need to spend more time and money familiarizing themselves with the complex operations of their new clients, this increases the auditors' independence relatively more than the costs Gietzmann and Sen (2001). Audit firm rotation problem on audit risk that due to below standard audit or programs implementation, for the reason that an auditor has not comprehensively understood his client, individuals assigned by their firms have not complete knowledge, experience of a particular industry. (Taylor, 2000; Beatty, 1989; Craswell et al., 1995).

(PCAOB, Arel,et al.,2005) provide arguments against mandatory firm rotation, including that the Sarbanes-Oxley Act of 2002 (SOX) assigned responsibility for the audit to independent audit committees of public companies. Mandatory audit firm rotation could prevent the audit committee from selecting and retaining the most qualified audit firm to perform the company's audit, Since the audit committee is responsible for the selection and oversight of the audit firm, the audit committee should be able to use its discretion and judgment when determining which audit firm is best suited to perform the company's audit. (Sarben Oxlay Act (2002) requirements that the SEC implement unbending independence rules to enhance auditor independence, objectivity and professional skepticism, these rules included prohibitions on the provision of certain non-audit services, prohibitions on hiring former auditors (including a "cooling-off" period), and a requirement for lead and concurring partner rotation every five years and rotation of other audit partners every seven years. According to PCAOB study MAFR is increase audit

committee responsibilities, and mandatory rotation of lead and reviewing audit partners after five consecutive years on an engagement (Arel,et al.,2005).

According to, professional due care audit firms prohibition from providing several non-audit services to their clients, including certain tax, consulting, and advisory services, auditor rotation of mandatory nature requires that the client firm does not retain an auditor for more than specified period of time.(IFAC 2011) This concept is supported by the idea that auditor rotation would not allow the auditors to have incentives in terms of seeking future economic growth from its clients and in a way would reduce the likeliness of biasing the reports in favor of the client's management. Mandatory rotation argue that the knowledge acquired by an auditor about the specifics of a company will be lost with each rotation, ultimately harming audit quality, distorts the competition in the market and increase the cost of an audit. (EU legislation; AICPA, 1992)

For the period of the initial years, when an auditor is changed under audit-firm rotation, the audit costs would tend to be higher in order to acquire much of the necessary knowledge related to the client firm than the audit costs in the subsequent years. Other costs that would be incurred by the client firm are the auditor selection cost and the auditor support costs (GAO, 2003, p. 6). According to the study of GAO (2003, p. 8) they believe that audit-firm rotation is not the most efficient way of enhancing either the auditor independence or the audit quality if the additional financial costs and loss in the firm-specific knowledge is taken into consideration. Results of the survey conducted by GOA of Fortune 1000 public companies shows concerns over the risks of an audit failure during the initial stages of audit firm rotation because the new auditor at initial stages is in the

process of learning the knowledge regarding the client firms' operations, systems and financial reporting practices. Although the additional costs associated with mandatory audit-firm rotation are certain, the benefits to be achieved from it are difficult to either predict or quantify. Supporters of audit firm rotation believe that the value associated with fresh-look which would protect those stakeholders who rely on the financial statements outweighs the additional costs associated with it. Conversely, those who oppose mandatory audit firm rotation are of the opinion that the costs would be increased for the audit firms and the public companies resulting in the costs outweighing the value associated with the fresh-look (GAO, 2003, p. 13; Kwon, et al., 2010).

According to the literature review and based on the above discussion, the arguments in the benefit of mandatory audit firm rotation can be summarized as follows:

1. If auditors continue to audit the entity for too long, they risk developing too close relationship with the client and compromising independence.
2. Periodically having a new auditor would bring a fresh look to the public company's financial reporting and help the auditor appropriately deal with financial reporting issues because the auditor's tenure would be limited under mandatory audit rotation.
3. Mandatory audit firm rotation would help in the more even development of the auditing profession, helping smaller and medium - size audit firm rotation.

The arguments against mandatory audit firm rotation can be summarized as follows:

1. New auditors may miss problems in the period under review because they lack adequate experience with the client to notice either unusual events or important changes in the client's environment.

2. There are not enough large audit firms to address the audit requirements of large companies, making auditor rotation impracticable at the ground level.
3. The rotation would only prevent auditors from building in-depth institutional knowledge of a client and its business.
4. It is a poor instrument to promote independence especially in an environment, where auditors are appointed by board (audit committees) with intensive participation of management.

2.1.3 Mandatory Audit Rotation and Auditor Independence in the Views of the Profession Regulators

In this part focus on the relation between auditor independence and audit firm rotation, the independence of auditor is key factor in evaluating the reliability of auditor report. This feature has several implications. The first is for User of Audit report. It is the auditor independence can enhance the credibility of published financial reporting and the add value for several categories of stakeholders. The second implication directly involves the profession and due care: the trait of independence is the best way of demonstrating to the regulator and the public that the auditors are performing their task according to ethical principles such as objectivity and in integrity.

Professional competence and due care: Members have a continuing duty to maintain professional knowledge and skill at a level required to ensure that a client or employer receives competent professional service based on current developments in practice, legislation and techniques. Members should act diligently and in accordance with

applicable technical and professional standards when providing professional services.
(IFAC code of Ethics, 2011)

Integrity: Members should be straightforward and honest in all business and professional relationships. (IFAC code of Ethics, 2011)

Objectivity: Members should not allow bias, conflicts of interest or undue influence of others to override professional or business judgments'(IFAC code of Ethics, 2011)

Familiarity and self-interest threats are created when senior partner of an audit engagement is maintained for a long period of time (IFAC 2015). IFAC also stated that the significance of the threats will be influenced by the length of time an individual has been a member of the audit team, its role on the audit, the structure of the firm , the nature of the audit engagement , the client's management change and the complexity of client's accounting and reporting issues.

IFAC on the other hand stressed the procedures and safeguards that professionals should need to assume in eliminating the threats or reduce them to an acceptable level. Rotating the senior personnel of the audit team; reviewing the work of the senior personnel; and regular independent internal or external quality reviews of the engagement are among the safeguards recommended by IFAC.

For public interest entities, IFAC lays obligatory audit rotation for key audit partners. Except some extreme circumstances which are outside of the firm's control, maximum of seven years engagement and a lay off (cooling off period) two years is the necessity. When a firm has only a few people with the expertise and experience to serve as a key audit partner, rotation may not be an available safeguard. In addition, when certain jurisdictions exempted for partners rotations, an individual may allow working for more

than seven years. However, in any of the above two situations, other alternative safeguards such as regular independent external review must be exercised.

Though, the long relation of client and auditor relations will led to familiarity and self-interest treats, the accounting and auditing regulatory bodies, such as IFAC set out procedures so as to eliminate and reduce the associated risks. The partner's rotations within the firm and the independent external review outside of the firm are the major safeguards that IFAC is recommending.

2.1.4 The Big Four Views on MAFR

Price water house Coopers International Limited and Ernst & Young explained their views on the mandatory audit firm rotation (PwC 2014 and Earnst &Young 2013). On their report, they argued that evidences have not been obtained that shows that audit firm rotation increases auditor independence or reduce over-familiarity. Also they reasoned that, many countries have rejected it after they had tested with the idea. They still argued that there are other effective ways to enhance auditor's independence such as stronger national regulations, strong audit committee oversight, better coordination between stakeholders, and increasing transparency by auditors to audit committees (PwC 2014 and Earnst & Young 2013).

They support the idea of improving the independence, objectivity and professional skepticism of auditors and to address the perception of over familiarity between the auditor and management. And also they agree that these attributes are at the heart of the credibility of and public trust in the audit profession and the statutory audit. However they believed that, mandatory auditors rotation is not the right solution for the issues, but on the contrary it would expose the audit quality as significant and unnecessary risks.

PwC and Ernst & Young (2013) summarized their views as follows that, mandatory auditor rotation;

- *Reduces the quality of an audit.*

Mandatory audit firm rotation of audit firms' results in the loss of the accounting firm's cumulative knowledge of the company's business, people, processes, controls, risks, and putting the audit quality at significant risks.

- *Reduces an audit committee's ability to fulfill its responsibilities*

It argued that, mandatory auditor's rotation will reduce (limit) the decision power of the audit committee by imposing some mandatory rules and regulations.

- *Reduces competition and restricts free market forces*

The mandatory audit rotation obligation rejects the current auditor from competitions that it weakens competitions.

- *Add costs and complexity to audits*

In applying the auditors' rotation, it exposes the company's to unnecessary process to select and recruit the auditor that ultimately led to unplanned costs. On the other hand, when the existing auditors leave the company, the new one will not be in a position to undertake the audit easily rather it become complex.

- *Goes against market consensus*

Most countries in the world practice are against of the mandatory audit rotation. Though, it has been tested by different countries, most of them rejected to practice as part of their regulation.

Both the big four firms (Ernst & Young and PwC) clash with the mandatory auditors rotations, but have recommended other alternatives. According to them, auditors' independence or professional skepticism would be improved and safeguarded by; (1) Establishing or strengthening the national regulators of the profession (2) Increased adoption of "best practice" for audit committee oversight of the performance of the audit (3) Improving transparency about the audit and the auditors and (4) Restricting on non-audit services.

2.2 Empirical Evidence

2.2.1 Prior Studies on Mandatory Audit Rotation and Effects

As shown on the past empirical studies, many researchers and scholars don't express the same conclusion on the relationship between auditors' rotations and independence of auditors. Some argued that audit firm rotation could help to improve the auditor's independence (Omri and Akrimi, 2015, Kousay and Hussein 2014) that, audit firm rotation enhances independences and expressed that it become the first factor for auditors independence. In this study, the authors further emphasized that independence could be enhanced by imposing partners rotations within the firm (Omar and Akrimi 2015).

On the study made in Bahrain, it is argued that mandatory audit firm rotation could safeguard the auditor's independence and reached to the conclusion that the mandatory rotation has significant relationships with the auditor's independence. This study was made by focusing on the external auditors in the Bahrain (Kousay and Hussein 2014).

Auditor independence and mandatory audit firm rotation in Jordan the study and finding defining the four independent main variables of the auditor independency (auditor-client relationship, audit tenure, audit fees, and mandatory auditor rotation). The findings of the study revealed that there is a significant positive relationship between the auditor independency and auditor-client relationship and mandatory rotation. A negative one with the audit fees and there is no relationship with audit tenure. The study has been carried out through a questionnaire survey that aimed to collect data about the auditor independency in Jordan, and through a developed model to test the mandatory auditor rotation in the Jordanian audit firms. (Abeer Fayez Al-Khoury, Ala'eddin Ali, Mahmoud Al-Sharif, Jabra Hanania, Iyad Al-Malki & Mohammad Jallad ,2014)

On the study made in Italy, the benefit of audit firm rotation and its relation with quality audit was observed. Accordingly, the result showed that, audit quality has been improved as a result of both voluntary and mandatory auditor's rotation. In addition, the result indicated that the audit fee being paid was not associated with the mandatory auditors' rotation (Silvano, Cristina, Gorfio and Stacy A. 2015). From this study, it is conceivable to say that, implementing or maintaining auditor's rotation could improve independence of the auditor and ultimately results in quality audit service. Unlike, the big four views of PwC and EY, this study showed the audit fee and the rotation of audit firm doesn't have relationships to each other.

According to (Amsalu.2011), a research was made in Addis Ababa to assess whether the extended audit tenure on auditors could impact auditors independence and audit quality. And also the study examined both the short and long audit tenures impacts on the auditors' independence. (Amsalu.2011) then reached to the conclusion that, long term relationship between the auditor and its client could impair independence and audit quality. Also the research showed that audit tenure could affect the audit independence in both the short and long audit tenures (Amsalu.2011). The study was conducted before five years when the number of auditors were 50 firms with simple random sampling using only six audit firms.

On the other hand, empirical studies proved that mandatory audit firm rotation doesn't have relations with the independence of the auditor and quality of the service. It rather on the contrary that, auditors was not issuing going concern opinions during their first six years of their stay (Ruiz, Gomez and Aguilar 2009). Study was also made in Malaysia aimed at to analyze the different types of audit report and audit rotations and the trend of audit rotation in marketplace. Accordingly, the result showed that rotation appears to be qualify less often in the big 4 firms. The study further indicated that, there is no significant association of mandatory audit partner's rotation and the audit opinions issued (Kalsom & Hazlina 2014).

2.2.2 Conclusion and Research Gap

When the researcher grasp the regulatory requirements of auditors' rotation, it is mainly on partners rotation within the firm than firms own rotation. According to IFAC, senior audit partner rotation could improve the auditors' independence by eliminating familiarity and self-interest treats. Though the IFAC code of conduct recommends different

means for safeguarding of self-interest and self-review threats, mandatory audit firms' rotation was not on the list. PwC and EY on their view expressed that, mandatory audit rotation and auditor's independence don't have significant relationships and doesn't affect the audit quality. They further argued that, the mandatory audit firm rotation results loss of knowledge, increase costs and audit complexity, sufferers the clients right in having the auditor and affects the fair market competition. They also argued that, strengthening the national regulatory bodies, restricting the auditors from non-assurance services, and quality audit committees are among the suggested possible ways of mitigating of such independence risks.

Past empirical studies also have contentious outcomes on the results of mandatory auditors' rotations. From the above analyses, it is possible to say that the impact of mandatory audit firm rotations on the independence of auditors is a controversial issue. Some argued in favor of the rotation and some strongly complain it. As learnt from different empirical studies, some countries impose mandatory audit rotations and some are not. In addition, some countries studied it and recommended for implantation, but they shelved it apart, as it was strongly opposed by the companies and professionals in the country.

On the study made in Ethiopia, it indicated that quality of audit will be affected on the long term relationship of the auditor and its clients (Amsalu.2011). Though Amsalu tried to address the audit tenure effects on the auditors' independence and quality, his study was concentrated on the tenure of the audit than the perceptions of the auditors on the issue. Apart from this, Amsalu's research was limited on six audit firms and fifty auditors that,

however, research gap show that there are few researchers on study audit client tenure in Ethiopia. This research paper aims at partially filling this gap.

Mandatory auditor rotation policy would generally set the audit engagement period in stone, reducing the auditor's alleged tendency to bend to management. Furthermore, the existing auditor would know that any errors or omissions could be discovered by an ensuing auditor. Presently the issue of mandatory rotation debate in the world (GAO 2003) Thus, this research tries to fill the gap that had been reflected in the past research that had been done to use regulatory body.

As reviewed most of the literature mandatory audit firm rotation focuses on developed countries that implemented and exercise (EU legislation, 2011). The current study, therefore, addresses this issue in developing countries, in the case of Ethiopia.

This paper also expects to evaluate whether mandatory audit firm rotation could improve auditor's independence and tries to show to how auditor's perception on the mandatory firms' rotation were influenced by demographic characteristics such as qualifications, gender, number of employees and ages of experiences

As to the knowledge of the researcher, it can be concluded that although there have been studies on the mandatory audit firm rotation effect on auditor independence in Ethiopia , there are no comprehensive studies that examine the perception of auditors on mandatory audit firm rotation and its effect on auditors independence. Therefore the current study is tried to fill the gaps which are mentioned in the above.

2.2.3 Hypothesis Testing

The researcher believes that, this issue will have significant importance for the policy makers in assessing of the professionals opinion in the country. In the light of that, and to accomplish the objectives of this research and to answer the research questions, the following hypotheses are formulated:

H01: There is no statistically significant relationship between mandatory audit firm rotation and auditor independence.

H02: There is no significant difference between respondents in their perception of auditor independence and mandatory audit firm rotation attributed to demographic characteristics variables.

CHAPTER THREE

3. RESEARCH METHODOLOGY

Designing appropriate research methodology is a prerequisite in order to conduct a good research work. Accordingly, this chapter discusses about the methodology by which the researcher was used to conduct this study. Thus, research design, source and types of data, study population. Sampling size, method of data collection and method of data analysis are presented below respectively.

3.1 Research design

3.1.1 Quantitative approach

Duangtip (2009) noted that quantitative approach is an objective, formal systematic process in which numerical data findings are common. Quantitative approach describes, tests, and examines cause and effect relationships (Burns & Grove, 1987). It also generates statistics through the use of large-scale survey research, using methods such as questionnaires or structured interviews and this type of research reaches many more people, but the contact with those people is much quicker than it is in qualitative research (Catherine, 2002). As it is cited from (Hoepfl.1997), Denzin and Lincoln (1998) and (Nahid.2003), researchers who use logical positivism or quantitative research employ experimental methods and quantitative measures to test hypothetical generalizations, and they also emphasize the measurement and analysis of causal relationships between variables.

Burke et al. (2004) mentioned the strength of quantitative approach as testing and validating already constructed theories about how (and to a lesser degree, why) phenomena occur, testing hypotheses that are constructed before the data are collected; Can generalize research findings when the data are based on random samples of sufficient size; useful for obtaining data that allow quantitative predictions to be made; allowing one to more credibly assess cause-and-effect relationships; data collection using some quantitative methods is relatively quick (e.g., telephone interviews); provides precise, quantitative, numerical data; data analysis is relatively less time consuming (using statistical software); the research results are relatively independent of the researcher (e.g., effect size, statistical significance).

For reliability, quantitative research is considered more reliable than qualitative investigation. This is because a quantitative approach aims to control or eliminate extraneous variables within the internal structure of the study, and the data produced can also be assessed by standardized testing (Duffy, 1985, cited in Duangtip, 2009). In contrast to the advantages or strengths of quantitative approach as mentioned above, Burke et al. (2004) identifies the weaknesses of quantitative approach as the researcher theories that are used may not reflect local constituencies understandings; the researcher may miss out on phenomena occurring because of the focus on theory or hypothesis testing rather than on theory or hypothesis generation (called the confirmation bias); knowledge produced may be too abstract and general for direct application to specific local situations, contexts and individuals. In addition to this, the absence of open ended questions is the other disadvantages of quantitative approach.

3.2 Source and Types of Data

Under this study, there are two sources of data collection: primary and secondary sources. The primary source of data is the collection of firsthand information using questioners that appropriately suit the study based on the researcher's assumed perceptions. Just by its name, secondary data is information already which may have been processed and stored. This information came from official documented data, journals, articles, newspapers, text books and internet. The primary source used as the main empirical data for the analysis, while the secondary source used to describe theories and in the literature review. According to cooper and schindler, (2003) since the information has not been filtered or interpreted by second party, primary sources are always the most authorities.

3.2.1 Questionnaires:

Questionnaire is a type of data gathering instrument where respondents write answers to questions posed by the researcher on a question form. Number of respondents were asked identical questions, in order to gain information that can be analyzed. The type of questionnaires can be close-ended questions, the respondents answer one options according to a particular format; for example, multiple-choice questions, checklist questions and rating questions. In this way the respondents does not require so much time to finish it when compared with the required time for open ended questions (Pitchaya et al.,2010). However, open-ended questions permit the respondents to have freedom to respond from their own frame of reference (Ary et al., 2009 cited in Pitchaya et al., 2010). Lake and Harper (1987) cited in Pitchaya et al. (2010) stated that “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. As mentioned above in this study a

self-made questioner has been used and distributed among auditors (Who works in external auditors as a position of principal /or partners) in Ethiopia to know their perception concerning to mandatory audit firm rotation and its effect on independence.

The questionnaire were designed to capture the three sections. section one demographic information and current audit practices ,Section two questions about potential effects of mandatory audit firms rotation upon audit independence, and section three composes equations about overall opinions on requiring mandatory audit firm rotation ,with respect to the research questions. The closed ended questionnaire was designed based on Likert scale model with 5 choices; “strongly disagree”, “agree”, “neutral”, “disagree” and “strongly agree” (see appendix D). The researcher chose to use a Likert scale due to two reasons; first it is suitable for measuring attitudes and opinions which is preserved in the purpose of this study. Second, Liker scale was used by number of researchers (e.g. Etienne et al., 2010; Amsalu, 2011) in the literature of mandatory audit firm rotation and auditor’s independence. Based on this fact liker scale as data collection technique will employ in this study. In order to get a higher response rate, an introduction letter will sent to the respondents prior to the questionnaire wherein briefly described the purpose of the study. The questionnaires will distributed among 84 auditors from 107 external auditors.

3.3 Study Population

In Ethiopia, Professional practitioners are engaged in auditing and accounting practices. The accounting practitioners are named as “Authorized Accountant”, which are mainly engaged in bookkeeping and accounting services to their clients. Authorized Accountants are not required to have professional qualifications from the recognized IFAC

members' body (only local university degree with years of experience is necessary to secure their license). Whereas, the "Authorized Auditors" are being practice as independent auditors and are required to produce a professional practicing certificate from IFAC member body (such as ACCA and CPA). Currently established on certification and regulatory professional body but no start to provide of certification in the country. Though, there are professional associations in the country, their structure and legal background doesn't support them to regulate and monitor their members and their role and responsibility remained on the collection of annual membership fees.

Presently there are register on Accounting and Auditing Board of Ethiopia 89 authorized audit firms. (AABE on February 26, 2016). Of the listed authorized auditors, only one is owned by the government, or else all others are private auditors practicing as the capacity of 75 audit firms as sole practitioners and 13 audit firms as partnership arrangements (see appendix A).

The study population is all external auditors who are practicing in audit firm at a position of principal and /or partner in Ethiopia. We consider auditors as entire authorized and approved individuals and not specific auditing firms. The word auditors in this study will not be refer to internal auditors. It refers only to external auditors.

3.4 Population and Sampling

The subset of the whole population that the researchers are interested in surveying is known as sample, and the suitable selection of sample is important for the reliability of the research (Bryman and Bell, 2007, p. 195). Regarding to these Paula et al. (2001) noted that, sampling refers to drawing a sample or selecting a subset of elements from a

population. The design of a sampling strategy is an important issue for a research study and it can be a powerful tool for accurately measuring opinions and characteristics of a population. The main focus of this study is to understand the auditors' perception towards their mandatory audit firm rotation and its effect of auditor independence.

According to the AABE Feb, 2016, there are 89 audit firms and 107 auditors that are principal and partner. Due to cost and time constraints it is hardly possible to consider total population of study area. Based on this fact the determination of sample size is resolved by means of Slovin's sampling formula with 95 percent confidence level. Populations for quantitative data collection for this study are external auditors in Ethiopia particularly partners and principals. So, it is 107 external auditors representing 84 from them. The sample size for collecting quantitative data for this research is determined using Cochran's (1977) formula as indicated on Bartlett Kotrlik and Higgins (Bartlett and Higgins,2001). This study uses the following formula to calculate sample size:

$$n = \frac{N}{1 + N(e)^2}$$

The following step is used to determine sample size derived from the above formula to collect quantitative data using questionnaire:

$$n = \frac{N}{1 + N(e)^2}$$

n= sample size for the research use

N= total number of external auditors in the study area

e = margin of errors at 5%

Therefore:

$$n = \frac{N}{1+N(e)^2} , \quad n = \frac{107}{1+107(0.05)^2} = \mathbf{84}$$

Sum of sample sizes is taken from external auditors become 84 external auditors by using of simple random samplings techniques and then distributed the questionnaire for all 84 auditors of the randomly selected audit firms. A response rate of 100% was the researcher expectation for the survey.

3.5 Methods of Data Collection

Data collection is the process of gathering data from different sources. We always need relevant and authenticated information in order to answer our research question. As it discussed in the population and sampling part above the sample size in the study are 84 external auditors. The method of information were gather from the samples using questionnaire as a means of data collection technique. Questionnaires were distributed for selected samples to get their responses regarding mandatory audit firm rotation and its effect on auditor's independence. respondents are ask to express their opinion on the effects of mandatory audit firm rotation up on audit independency using liker scale of 5 points ranging from 1 "strongly disagree" to 5 "strongly agree". The internal consistency of the questionnaire reliability was measured by using Cronbach's coefficient alpha statistical test.

3.6 Method of Data Analysis

The data collected from the respondents were analyzed using both descriptive and inferential statistics. The descriptive methods was describe the demography of respondents, the current audit practices and other variables in the study using percentages, frequency count. Inferential statistics used mean, standard deviations, T- test one-simple statistics and ANOVA one way test and relevant data from their sources were analyze using by SPSS software.

3.7 Description of Variable

The variables used in this study is based on the line as applied in previous research regarding the relationship between Mandatory audit firm rotation and Auditors independence. These variables are categorized as dependent and independent variables.

3.7.1 Dependent Variable

Dependent Variable considered in this particular thesis is the auditor's independence. Auditor's independence can be defined According to Alleyne et al. (2006)"independence in fact refers to the actual objective state of the relationship between auditing firms and their clients. Independence in appearance refers to the subjective state of that relationship as perceived by clients and third parties". Used to analyses the mandatory audit firm rotation effects on auditor's independence in the external audit firm of Ethiopia.

3.7.2 Independent Variables

One of interesting explanatory variables that affect auditor independence is Mandatory audit firm rotation are according to (Kousay, Hussein 2014) defined as "Mandatory audit

firm rotation sets a limit on the number of years a public accounting firm may audit a company's financial statements. After a predetermined period, an auditing firm is no longer eligible to serve as the company's auditor for a set time interval and a rotation of firms is required".

Based on the above definition of MAFR an audit firm stay within single audit client for long period of time results familiarity threat and financial dependency. Extended auditor-client relationship can have possibility of providing non-audit service to audit client, in addition to audit services. provision of audit and non-audit service for a single audit client increase amount of income generated from that client there for the auditor become financial dependent on a single audit client and lead to effect on auditor independence because an auditor's objectivity and professional skepticism decreases overtime.

Long auditor-client relationships also bear familiarity, in this way familiarity with ex-auditor employment with audit client and audit process in the audit client. Familiarity in these way together with financial dependency basically result reduce auditor's independency and professional skepticism. Hence, the presence of MAFR minimize the above mentioned problems, since its tries to set appropriate audit firm tenure and cooling off period in the country.

CHAPTER FOUR

4. RESULTS AND DISCUSSION

In this chapter, the researcher presents the results from the questionnaires and analyzes them based on the output. Accordingly; the paper presents the results and effect of MAFR on auditor independence. As it is mentioned before, the main purpose of this study is to examine whether MAFR effect on auditors independence.

The analysis of this chapter is categorized in to two groups. In the first group descriptive analysis under this first section, reliability statistics of the questioners, in the second background information of the respondents presented; which includes gender and year of experience working as an auditor. The third section consists the analysis of response rates and missing values of the respondents. Finally, the main body of this chapter in second group inferential analysis; which are auditor's perception on effects of audit firm rotation on perceived auditor independence and the differences perceptions of MAFR and auditors independence with demographic variables. As mentioned in chapter three, under this chapter, the results which are gained from the respondents were presented and analyzed with the help of SPSS (i.e. simple descriptive & inferential statistics).

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

4.1 Statistical Analysis

4.1.1 Reliability Statistics

Analyzing the internal consistency of the questionnaire reliability was measured by using Cronbach's coefficient alpha statistical test as shown in Table 1. The analysis provides an indication of the average correlation among all the items that made up the scale. According to George and Mallery (2003) provide the following rules of thumb: “ $\alpha > 0.9$ – Excellent, $\alpha > 0.8$ – Good, $\alpha > 0.7$ – Acceptable, and $\alpha > 0.6$ – Questionable, $\alpha > 0.5$ – Poor, and $\alpha < 0.5$ – Unacceptable” (p. 231). Therefore, the two survey instruments have values of alpha greater than 0.7, which mean that the included items in the scale have an acceptable internal consistency (reliability). That is, the survey instruments are good enough to be administrated and able to attain their intended goals. According to the pilot survey, the Cronbach’s Alpha is 0.880 which indicates the reliability is Excellent. A sample scale that shows alpha value above 0.70 is considered reliable Therefore, the indices for the questionnaire reliability are generally considered adequate for this research

Table 1 Reliability statistics

Cronbach’s Alpha Based on standardized items	Cronbach's Alpha	N of Items
0.70	0.880	15

4.1.2 Demographics

Analyzing the first section of the questionnaire reveals the demographic background of the respondents, which are examined by looking at the Position; experience;

professional qualifications and number of employees' descriptive analysis regarding demography variables.

	Frequency	Percentage (%)
Qualification		
ACCA	59	96.7
CPA	2	3.3
	61	100
Gender		
Mal	55	91.7
Female	5	8.3
	60	100
Position		
Principal	37	60.7
Partners	24	39.3
	61	100
Total Work Experience		
1-5years	5	8.2
6-10years	2	3.3
11-15 years	33	54.1
Over 15 years	21	34.4
	61	100
No. of Employees		
1-10	5	8.6
11-20	6	10.3
20-30	17	29.3
over 30	30	51.7
	58	100

Table 2 Respondents distribution according to demography variables

Respondents were requested to report their professional qualifications. Table 2 shows that the majority of the respondents (96.7%) have professional certificate of ACCA, followed by CPA. with 3.3%. These results indicate highest academic level that respondents have, and this may be positively reflected upon the importance of the information given by the respondents. And gender issue the total of 61 respondents with 1

system missing 91.7% male and 8.3% were female. Position or job title of the respondents' auditors is the total of 61 auditors analyzed, twenty four auditors (39.3%) are partners; thirty seven auditors (60.7 %) are principal.

Auditors are varied in years of experience which are classified into four categories for the purpose of this research; less than five years, between 6 to 10 years, between 11 to 15 years and above 15 years of work experience. Table 2 shows that 11.5% respondents have below 10 years' experience and 85.2% respondent over 10 years' experience and this result indicates that the extent of experience and maturity that may be reflected positively upon the work number of employees working in audit offices show on the Table 2 respondents' auditors are categories in to four groups such as less than ten employees, above 11 below 20, between 20 to 30, and over 31 employees. Of the total 81% audit office have over 20 employees. This results indicate that the auditing offices are working very well, audit firm size and are established themselves in the market.

Services provided to audit clients (other than audit)	Frequency (%)		Frequency (%)	
	Yes	%	No	%
Financial system design and implementation	27	45.0	33	55.0
Taxation & filing ERCA	54	88.5	7	11.5
Accounting services	42	68.9	19	31.1
Internal audit services	31	50.8	30	49.2
Management functions or human resources	16	26.2	45	73.8
Other non-audit services	20	32.8	41	67.2

Table 3 Respondents distribution according to current audit practices

Table 3 shows the distribution of respondents according to current audit practice. It is majority of respondents that provide to audit clients non audit services such as 88.5%

Taxation, 68.9% accounting service, 50.8% internal audit service, and 45% financial system design & implementation but not provide service to audit client 32.8% other non-audit service and management functions or human resources 26.2% for each.



Figure 1. Respondents' answers regarding MAR policy

Respondents were asked to indicate their perceptions regarding mandatory audit firm rotation rules. Figure 1 shows that 10 (16.9%) of the respondents have a policy that require the mandatory audit firm rotation rule and 24 of the respondents (40.7%) do not require the MAFR rule whereas 25 (42.4%) have no answer. And also the total of 61 respondent 2 of them missing the system.

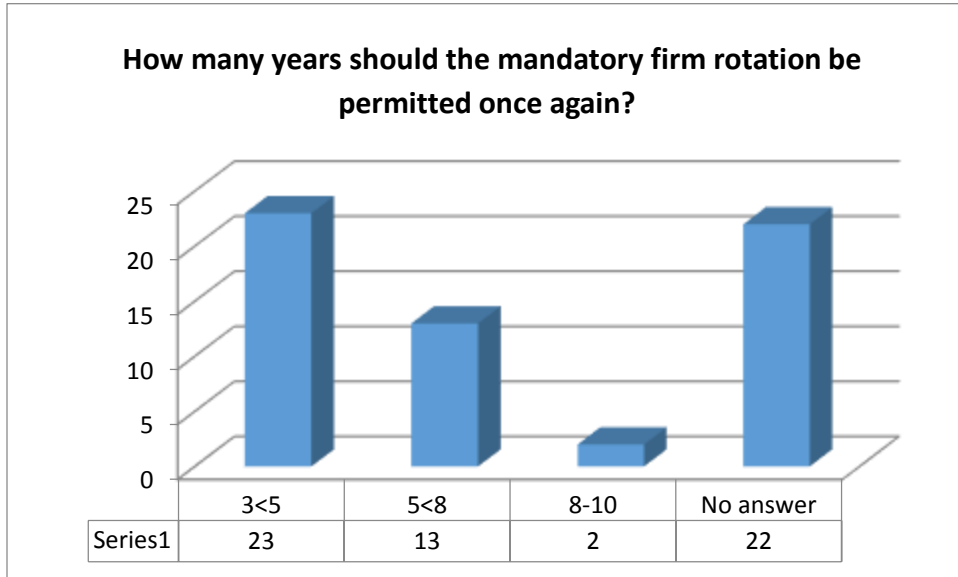


Figure 2. Respondent's answers regarding number of years permitted.

Figure 2 indicates that 23 of respondents (38.3%) choice of three to less than five years and 22 of the respondents (36.7%) have no answer regarding the number of years that should the mandatory firm be permitted to once again compete for audit services followed by the choice of five years to less than eight years and that eight years less than ten years. But from the total respondents 61 only 1 respondent missing the system.

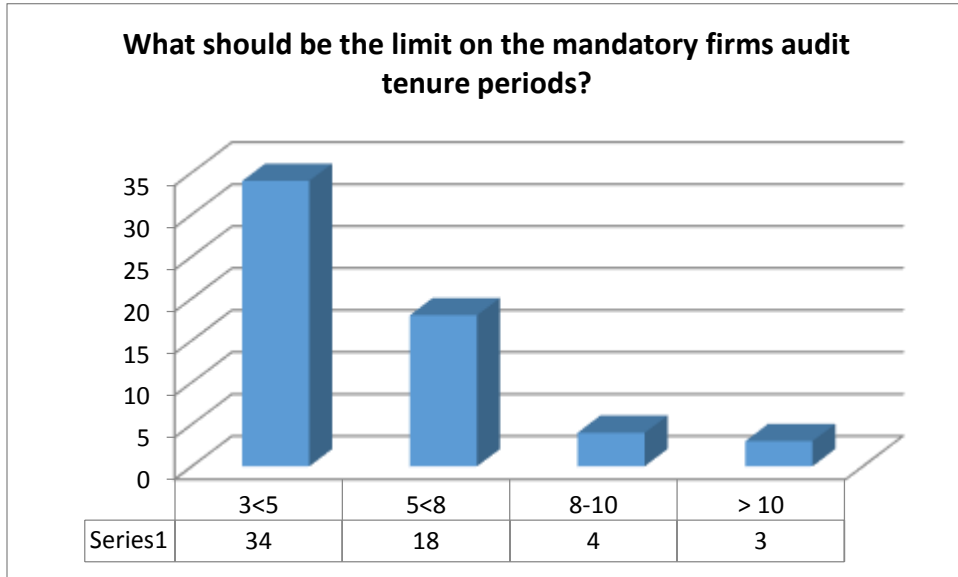


Figure 3. Respondents answer regarding limit on mandatory firms audit tenure

The total of 61 respondents 2 respondents missing systems in Figure 3, The results regarding what should be the limit on the mandatory firm's audit tenure period also indicates that the choices "three to less than five years" and "five years to less than eight years" have 34 respondents (55.6%) and 18 respondents (30.5%) respectively for each.

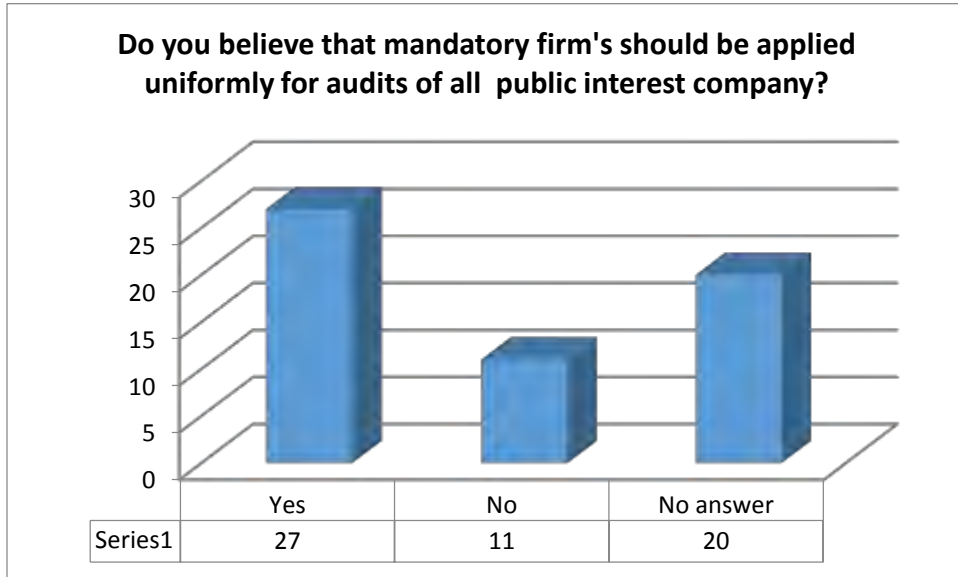


Figure 4. Respondent's answers regarding uniformly implementing MAFR.

Figure 4 regarding the statement "do you believe that mandatory firm's should be applied uniformly for audits of all public interest companies regardless of the nature or size of the public interest company" indicated that the respondents were not in agreement, in which 46.6% answer Yes ,34.5 % have no answer, and 19.0 % answer No.

4.1.3. Analysis of response rates and missing values

The initial expectations for the response rate of the questionnaire was 100% and the researcher wanted at least 84 respondents. Based on this, the researcher distributed the questionnaire to 84 auditors and received a total of 61 responses implying a response rate of 72.6%.

	Frequency	Percent (%)
Total response rate	61	72.62
Unreachable due to out of office	3	3.57
No response	20	23.81
Total response failures	23	27.38
Total	84	100.00

Table 4 Response rate

Summarize Table 4 response rate show that respondents could not be reached due to out of office 3.57%. The most frequent reasons for this was work-related travels. The rest 20 respondents were not voluntary to fill the questionnaire. This indicates that they didn't take care to give their opinion for the questionnaire. Although the actual response rate (72.62%) was lower than the expectations (100%). One of the reasons for the low response rate might be as a result of much workload for the auditors and they do not prioritize answering to a survey. This is due to that most of the time the auditors are assigned in the field work and they may not have enough time to fill the questionnaires. This may have accounted for the low response rate.

4.2 Auditors' perceptions on effects of audit firm rotation on perceived auditor independence

Respondents are requested to express their opinions on fifteen statements using a Likert -scale of 5 points ranged from 1 "strongly disagree "; to 5 "strongly agree". This study defines any factors with the mean values up to 2.0, at least "disagree" or "strongly

T-Test of Significant Level

Questions	Mean	Std. Deviation	t-Value	P-Value (Sig.)
II.1_ Auditor's independence is a key priority not only for auditors, but. Also for management and investors.	4.72	0.488	27.574	0.000
II.2_ Under mandatory audit rotation, the audit firm will be more independent and objective in performing service.	4.11	0.858	10.144	0.000
II.3_ The longer audit tenure may adversely impact auditor objectivity and professional skepticism and therefore, impair the appearance of independence.	3.90	1.085	6.428	0.000
II.4_ A long term auditor-client relationship can induce an auditor to give much importance on the economic interest in preserving the client than to independence.	3.74	1.079	5.342	0.000
II.5_ Mandatory audit rotation would decrease auditors' incentive to compromise their independence through biased reporting in favor of management.	3.54	1.233	3.428	0.001
II.6_ Mandatory rotation would increase auditor's willingness to resist pressure from management.	3.76	0.897	6.53	0.000
II.7_ There are other factors motivating the auditor to maintain his independence, such as the need to preserve reputation and client revenue.	3.78	1.091	5.563	0.000
II.8_ Mandatory rotation will increase the auditor's potential for dealing more appropriately with financial reporting that may materially affected client's financial statements.	3.69	1.009	5.330	0.000
II.9_ Auditor's tenure exceeding five years is not significantly perceived as reducing auditor independence.	3.52	1.112	3.598	0.001
II.10_ Mandatory audit rotation can impair independence because it undermines the incentive to build up a reputation for honesty or because of the interest of the auditor in maintaining the client for the recovering of the initial investment.	3.47	1.295	2.791	0.007
II.11_ Mandatory audit rotation would decrease management's ability to influence the auditors	3.49	1.010	3.802	0.000
II.12_ Mandatory audit rotation may reduce the competition for large firm and tenure in compromise of independence.	3.38	1.057	2.734	0.008
II.13_ Mandatory audit firm rotation may have promoting of financial statement users.	3.72	0.940	5.903	0.000
II.14_ Due think that about possibility of mandatory audit rotation imposing more damage on audit market share.	3.41	1.202	2.662	0.010
II.15_ Mandatory audit rotation in the specific period that create low balling.	3.52	1.095	3.538	0.001
Average mean and standard deviation for all first hypothesis question together	3.717	1.030	6.358	0.002

Table 5 Effects of audit firm rotation on perceived auditor independence

disagree" upon; in the range of 2.1 to 3.0, are "uncertain" and 3.1 or above indicating that the respondents either "agree" or "strongly agree" that MAFR would enhance auditor independence.

Table 5 shows the means and standard deviations for each question individually and all questions together that test the hypothesis. The analysis indicates that the means range from 3.38 – 4.72. The standard deviation range from 0.488 – 1.295 which means that there is agreement among respondents about the hypothesis and the variances are low since the standard deviation of any question is less than half of the related mean. The respondents express that Auditor's independence is a key priority not only for auditors, but also for management and investors (mean=4.72, p-value= 0.000), and that under MAR, the audit firm will be more independent and objective in performing services (mean=4.11, p-value= 0.000).

Furthermore, respondents express their opinions and agree that the longer audit tenure may adversely impact auditor objectivity and professional skepticism and therefore, impair the appearance of independence (mean=3.90, p-value= 0.000). The respondents express that a long term auditor-client relationship can induce an auditor to give much importance on the economic interest in preserving the client than to independence (mean=3.74, p-value= 0.000). The respondents express the MAFR would decrease auditors' incentives to compromise their independence through biased reporting in favor of management (mean=3.54, p-value= 0.001). And that MAFR would decrease auditors' incentives to compromise their independence through biased reporting in favor of management (mean=3.54, p-value= 0.001).

Respondents have expressed their opinions on the MAFR would increase auditor's willingness to resist pressure from management (mean=3.76, p-value=0.000). The respondents agreed that there are other factors motivating the auditor to maintain his independence, such as the need to preserve reputation and client revenue (mean=3.78, p-value= 0.000), and that MAFR will increase the auditor's potential for dealing more appropriately with financial reporting that may materially affect client's financial statements (mean=3.69, p-value= 0.000). furthermore, respondents believe that Auditor's tenure exceeding five years is not significantly perceived as reducing auditor independence (mean=3.52, p-value= 0.001). Respondents that MAR can impair independence because it undermines the incentive to build up a reputation for honesty or because of the interest of the auditor in maintaining the client for the recovering of the initial investment (mean=3.47, p-value= 0.007), and that MAFR would decrease management's ability to influence the auditors (mean=3.49, P-value .000).

Furthermore, the respondent express on size of firm that MAFR may reduce the computation for the large firm and tenure in compromise of independence (mean=3.38, p-value= 0.008) and may have promoting of financial statement users reducing (mean=3.72, p-value= 0.000). Although that respondent about possibility of MAFR imposing more damage on audit market share (mean=3.41, p-value= 0.010), and mandatory audit firm rotation in the specific period that crate low balling (mean=3.52, p-value= 0.001).

The results suggest that auditor tenure effects on auditor independence, where auditors have relations with the client that add much pressure on his opinion, hence this might prevent him from issuing a qualified report that might lead to losing his client, and MAFR will enhance auditor independence . Accordingly, the average mean for all

questions together of the hypothesis equal 3.717 with standard deviation of 1.030 which is less than half of the mean. This means that no dispersion views among respondents about the questions of the hypothesis. Also, the analysis shows that the *t value is (6.358J which is greater than the table critical value of t (1.671), and the-.p-value is 0.002 less than the value of significance of 0.05 (p<0.05), This result indicates that there is a statistically significant relationship between MAR and auditor independence, which means that the null hypothesis is rejected, and that there is a statically significant correlation between MAFR of external auditors and audit independence at value of significance (p<0.05). This result is highly consistent with the findings of prior research on the correlation between MAR and auditor independence (Kousay and Hassein 2014; Abeer Fayeze Al-Khoury, Ala'eddin Ali, Mahmoud Al-Sharif, Jabra Hanania, Iyad Al-Malki1&Mohammad Jallad ,2014)*

4.3 Auditors' background variables and perceptions of MAR and auditor independence

It has been argued that respondents' background variables could affect perceptions of auditor independence. In this section, the relationships between the background variables such as auditors' qualification, gender, position, working experience, and number of employees and perceptions of auditor independence are examined. ANOVA was conducted to determine whether auditors' perceptions of the effect of MAFR on the auditor independence was influenced by demographic characteristics. The results of the tests are presented in table 6 below.

Table 6 shows that respondents' qualification did not have any significant effect on the perceptions of auditor independence. However, respondents' perceptions of the MAFR

may reduce the competition for large firm and tenure in compromise for independence (Questionnaire statement 12 with $P < .05$) and MAFR may have promoting of financial statement users (Questionnaire statement 13 with $P < .05$) seems to be affected by the respondents qualification.

It was found that gender has a significant effect on auditors' perception on some questionnaire statement related to the effect of the MAFR on the auditors independence, MAFR the audit firm will be more independent and objective in performing service (Questionnaire statement 2 with $P < .05$) and a long term auditor client relationship can induce an auditor to give much importance on the economic interest in preserving the client than to independence (Questionnaire statement 4 with $P < .05$). And also it was found that position of the respondents has no effect on auditors' perception of the effect of MAFR upon the auditor independence. The experience respondents did not have significant effect on the perception of auditor independence but MAFR can impair independence (Questionnaire statement 10 with $P < .05$) Furthermore, it was found also that number of employees has a significant effect on auditors' perception on MAFR can impair independence (Questionnaire statement 10 with $P < .05$) and MAFR imposing more damage on audit market share (Questionnaire statement 14 with $P < .05$).

ANOVA Test of Significant Level

Questions	Qualification	Gender	Position	Experience	No.of Employees
II.1_ Auditor's independence is a key priority not only for auditors, but. Also for management and investors.	0.416	0.744	0.217	0.729	0.118
II.2_ Under mandatory audit rotation, the audit firm will be more independent and objective in performing service.	0.523	*0.016	0.707	0.646	0.103
II.3_ The longer audit tenure may adversely impact auditor objectivity and professional skepticism and therefore, impair the appearance of independence.	0.146	0.146	0.267	0.601	0.113
II.4_ A long term auditor-client relationship can induce an auditor to give much importance on the economic interest in preserving the client than to independence.	0.730	*0.046	0.682	0.552	0.072
II.5_ Mandatory audit rotation would decrease auditors' incentive to compromise their independence through biased reporting in favor of management.	0.962	0.533	0.672	0.834	0.057
II.6_ Mandatory rotation would increase auditor's willingness to resist pressure from management.	0.240	0.501	0.187	0.701	0.702
II.7_ There are other factors motivating the auditor to maintain his independence, such as the need to preserve reputation and client revenue.	0.109	0.075	0.467	0.768	0.469
II.8_ Mandatory rotation will increase the auditor's potential for dealing more appropriately with financial reporting that may materially affected client's financial statements.	0.061	0.795	0.903	0.817	0.307
II.9_ Auditor's tenure exceeding five years is not significantly perceived as reducing auditor independence.	0.054	0.177	0.187	0.521	0.710
II.10_ Mandatory audit rotation can impair independence because it undermines the incentive to build up a reputation for honesty or because of the interest of the auditor in maintaining the client for the recovering of the initial investment.	0.089	0.062	0.520	*0.011	*0.001
II.11_ Mandatory audit rotation would decrease management's ability to influence the auditors	0.153	0.383	0.644	0.437	0.199
II.12_ Mandatory audit rotation may reduce the competition for large firm and tenure in compromise of independence.	*0.025	0.074	0.270	0.339	0.136
II.13_ Mandatory audit firm rotation may have promoting of financial statement users.	0.049	0.644	0.243	0.631	0.053
II.14_ Due think that about possibility of mandatory audit rotation imposing more damage on audit market share.	0.195	0.213	0.296	0.059	*0.01
II.15_ Mandatory audit rotation in the specific period that create low balling.	0.050	0.631	0.780	0.602	0.107

Table 6 Analysis of differences in perceptions of MAR and auditor independence with demographic Variables

In the desiccations and the above findings, Hypothesis 2, is not rejected since the evidence presented indicates that respondents' demographic characteristics have no significant effect on perceptions of auditor independence, but can be rejected only for the respondents' qualification (Questionnaire statement 12 and 13), gender (Questionnaire statement 2 and 4), Experience (Questionnaire statement 10), number of employees (Questionnaire statement 10 and 14) (Kousay and Hassein 2014)

4.4 Auditors' perceptions of importance of mandatory audit rotation

II.2_ Under mandatory audit rotation, the audit firm will be more independent and objective in performing service.

	Frequency	Percent	Valid Percent	Cumulative Percent	Summarized	Frequency	Percent
Valid Strongly Disagree	1	1.6	1.6	1.6			
Disagree	1	1.6	1.6	3.3	Disagree	2.0	3.3
Neutral	10	16.4	16.4	19.7	Neutral	10.0	16.4
Agree	27	44.3	44.3	63.9	Agree	49.0	80.3
Strongly Agree	22	36.1	36.1	100.0	Total	61.0	100.0
Total	61	100.0	100.0				

Table 7 Respondents' distribution important of Mandatory audit firm rotation

The second question in section two asked the respondents to answer “under mandatory audit rotation, the audit firm will be more independent and objective in performing service “.Table 7 report respondents' perceptions as to the importance of mandatory audit firm rotation. The analysis indicates that 80.3 % “agree” that audit firm rotation would enhance auditor quality, independence and objectivity and important the requirement of the policy and also that the respondents 16.4% “Neutral” no provide of

answer, However that the respondents 3.3% “Disagree” the benefits of mandatory audit firm rotation would exceed the costs of implementing such a requirement (GAO, 2003, p. 6). However that the respondents 46.6% should be implemented uniformly for the public interest regardless of size and nature. The result the same as (Sarben Oxlay Act 2002, AICPA. Kousay and Hassein 2014).

4.5 Overall View on Requiring Mandatory Audit Firm Rotation

Table 8 Respondents’ distribution according to overall on requiring mandatory audit firm rotation.

There should be compulsory rotation of audit firm after a fixed number of years			
Answer No.		Frequency	Percentage (%)
1	Agree, They believe it enhance audit quality, independence and objectivity (table 6)	49	80.3
2	3 > 5 reappointment (Fig 2)	23	38.3
3	3 > 5 tenure (Fig 3)	34	57.6
4	Yes, MAFR is implement uniformly in public interest company (Fig 4)	27	46.6

The 80.3% respondents perception’s on mandatory audit firm rotation enhance audit quality independence and objectivity therefore important of MAFR requirement. (Sarben Oxlay Act 2002, AICPA. Kousay and Hassein 2014).

The respondents perception’s on mandatory firm rotation be permitted once again 38.8% respondents were that there would need to be a “Cooling off period” before the audit firm should be allowed to return to the client after rotating off. The majority of the

respondents suggested that there should be at least three to five years before they should come back to the same client so that they “have adequate time to de-familiarize themselves before they go back to the same client again.

The respondents that 57.6% should believe that limiting the audit firms audit tenure period. The respondent’s perception that the tenure should “be no more than five years” I believed “that any longer than five years and the comfort level kicks in, this is when you begin to get to know the client a bit better and next thing you know you’ll have something like an Arthur Andersen case to deal with” long audit tenure association company.

Regarding the question overall current opinion on firm supports requiring mandatory audit rotation, the table shows that 80.3% of the respondents supports requiring mandatory rotation policy and 57.6% should be believe the limiting of audit tenure no more than five years with the 38.8% respondents are cooling off period three to five and 46.6 % of respondents should be implemented in public interest company.

CHAPTER FIVE

5. CONCLUSION AND RECOMMENDATIONS

5.1 Summary and Conclusion

The main objective of this study is to presents the opinions of sample of auditors who are practicing in audit firms in Ethiopia on potential effects provided by implementing mandatory audit firm rotation (auditor independence). It is believed that this study would supplement literature by providing answers to the following research questions. 1) Does mandatory audit firm rotation improve auditor independence? And 2) to what extent the auditors' perceptions about the effect of mandatory audit firm rotation on the auditor independence is influenced by demographic characteristics. Data for the study were collected by distributing self-administered questionnaire to the sample study that consist all auditors working in audit firms in Ethiopia. We started our study by asking auditors the most basic question: Does your firms have a policy that requires the mandatory audit firm rotation rules? 42.4 percent of the respondents 'indicated that no answer provide such a policy. Almost 46.6 percent of the respondents agreed with the statement that mandatory firm's should be applied uniformly for audits of all public interest companies regardless of the nature or size of the public interest company with audit tenure period of three to less than five years 57.6%. As a contribution to previous research, the perceived effects of mandatory audit firm rotation on auditor independence found in this study was compared with the perceived effects found in previous studies by the first hypothesis. The Average mean and standard deviation for all first hypothesis questions together resulted in rejection to the null hypothesis. This means that there is a statistically significant relationship

between mandatory audit firm rotation and auditor independence and that coincide by finding of prior studies.

The average mean of all questions together of the hypothesis is 3.717 with average standard deviation of 1.030 which is less than half of the mean. This indicated that there is no dispersion existed among respondents about the questions of the hypothesis. Also, the analysis shows that the *t value is (6.358)* which is greater than the table critical value of (1.67), (60 degree of freedom; 5% level of significance in the t distribution table), and the p-value obtained is 0.002 which is less than the value of significance at ($p < 0.05$), these results confirm that there is a statistically significant relationship. This study investigates auditors' opinions on requiring mandatory audit firm rotation. 80.3% of the respondents believe that mandatory audit firm rotation will enhances auditor independence but should be implemented. Moreover 57.6 % of them see it works if rotation period is three to five years with the 38.3% cooling off period three to five years.

Another relevant question addressed by this study is to what extent the auditors' perceptions of the effect of mandatory audit firm rotation on the auditor independence is influenced by demographic characteristics? Analysis of variance (ANOVA) was conducted to answer this question. As shown in table 6, it was found that respondents' qualification do not have any significant effect upon the perceptions of auditor independence except for (Questionnaire statement 12 with $P < .05$), and (Questionnaire statement 13 with $P < .05$) seems to be affected by the respondents' qualification. It was found that gender has a significant effect on auditors' perceptions on some questionnaire statement related to the effect of the MAFR on the auditor independence (Questionnaire statement 2 and 4 with $P < .05$). It was found that position of respondents has no effect on

auditors' perceptions of the effect of MAFR on the auditor independence. The results also reveal that, perceptions of auditor independence were not affected by respondents' experience only on some statement (Questionnaire statement 10 with $P < .05$). Furthermore, it was found also that number of employees has effect on auditors' perceptions of the MAFR on the auditor independence (Questionnaire statement 10 and 14 with $P < .05$).

The researcher also conclude that the adoption of rotation rules wasn't given enough attention among the auditing firms in Ethiopia. For that, 42.4 % of respondents' don't know "whether their firms have a policy that requires the mandatory audit firm rotation rules". 36.7% don't know how many years the mandatory firm should be permitted to once again compete for audit services. In requesting the respondents their beliefs regarding whether MAFR should be applied uniformly for audits of all public companies regardless of the nature or size of the public interest company, 34.5% indicate no answer

5.2 Recommendation

The area under study is an important subject not only to the auditors themselves but also other users of audit reports. Regarding to this, in the introductory chapter the researcher argued that from a practical perspective, the auditor independence is the interest of many different stakeholders on which they may get benefit from a quality audit judging from the objectivity of the auditors that arises from their independence and it benefit the auditor as it increases their reputation which may also result to an increase in the reputation of the general professional auditing bodies in which the auditors belong. However, as shown in the results, the protection of the auditors independence is not seems to work quite

effectively. As a result, the implications of the findings from this study leads the researcher to give the following recommendations.

Firstly, several respondents' suggestions were put forward regarding the enhancement of an auditor's independence as mandatory audit firm rotation. The researcher believes that further research could be conducted surrounding the areas of making directed towards examining the effect of MAFR upon audit quality and on the cost of audit rotation. Also, an investigation into whether hot file reviews by an independent third party to improve the quality of the auditors work, could be conducted.

Second, Another subject that would importance further research would be the suggestion that Government bodies appoint the auditors for each company. It is believed that this would strengthen independence given the fact that a client will have no say in whether or not to retain their clients; therefore, the auditor will feel under no obligation or have no incentive to issue a qualified report in order to retain their client.

Finally, this study has addressed the research question and provided a clear overview of the opinions of the external auditors. It is hoped that the findings of this research has added a valuable to the stakeholders in the significant of the study, how audit firm rotation would effect on an auditors' independence.

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APPENDIX

Appendix A: List of External Auditors



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The Federal Democratic Republic of Ethiopia
The Accounting and Auditing Board of Ethiopia

ቁጥር A/AB/62/08
Ref No.
ቀን 26/02/2016
Date

ABOKKER TRADING Pvt. Ltd. Co
Addis Ababa

This refers to your letter dated 26/02/2016 Ref. no ATL/AB/001/02/16 where you requested us to provide you with a list of auditors certified by our organization.

Accordingly, we have attached herewith a list of auditors (and their addresses) who received certificate of competence from the Board under Article 31(2) of the Council of Minister's Regulation no 332/2014.

Regards

Gashu Yemane Desta
Director General



No.	Firm's Name	Physical Address	Tell	E-mail
1	Member leul and co	infront of harmony hotel, floor 8, no 68 5	911230461	memberleul@yahoo.com
2	Solomon Eshele & co.	5 kila, mekuryesus build., floor 3, no 307 306 303	911404989	sol2000@yahoo.com
3	Sunson Worku & co.	bole mekhanalem, sheger build., no 504	911428486	sanni_lhgn@yahoo.com
4	TSY audit service	gibon street, office in a self contained villa	911417445	fadwole@ethionet.et
5	Getenet Worku &co.	bole, woroda 03	911637836	selfemshewa@yahoo.com
6	Blial Mohammed	hekkibet, garad mail, no 432-6-10	911694065	gethove@yahoo.com
7	Abraham Berehanu & co.	olompiya, Appex build, no 402	911230648	blhmoh32@gmail.com
8	Zelalem Tlahun &co.	megenanga, metereaber build, floor 6, no 620	911220346	abrahamn.co@ethionet.et
9	Getachewu Wakjira &co	bole road, CETV bldg, no 609,610,611	930109816	zelalemthl@gmail.com
10	Haberewold ineneke &co.	mezid plaza bldg, no 607	911212087	getwolk@ethionet.et
11	Mekonnen Muluneh & co.	22 road, bata complex, floor 2, no 201	911660793	hattermunk@ethionet.et
12	Tesfaye Tessema & co.	kazanchis, johani bldg, No 602	911513712	mekonnenmuluneh@gmail.com
13	Asrat, Gezahenge & Biholai audit partnership	Gabon street, sole complex, no 304	911429035	testis1974@gmail.com
14	Jemal Ali & co.	CETU bldg, floor 2, no 205,216	930014628	asrat-bekele@asfbpartners.com
15	Rezuayeshu Menegesha & co	liatera, no 1965/00	930013564	setfa_abdella@asfbpartners.com
16	Aleta & co.	Tg bldg, no 285/4/1	930013563	gezahengn.worku@asfbpartners.com
17	Tamerat Abebe &co.	sefa lion street, yeshi tam bldg, no 301,302	911517413	alempgeaadugna@yahoo.com
18	Muhaba muhanied & co	keffa bussiness center, no 806	911517414	almeta.comparny@gmail.com
19	Eliab Triahun &co	Gurd strola, athletics Federation bldg, no 311	911526622	tameratabebe@gmail.com
			911252038	muhabaa@gmail.com
			911227451	eliabtrahun.co@gmail.com

20	Testaye Menegsha & co	wollo seffer, Tk buldg no F2-203	911215779	qudlion testaye.menegsha@gmail.et
21	Fekade AB & co.	chirchil road, electric world buldg. No EW/34/306	911518183	fekadeab@gmail.com
22	Tigist & Eyob Audit service B/ partnership	kera, sofia mall, no 408	911485953	trienwari@gmail.com
23	Ephrem Melaku & co	Beal buldg. No	911644496	jobshaz@gmail.com
24	Tsega Demkbo co.		911251765	epm.melaku@gmail.com
25	Mekonnen G.audit service	bambis, naijgebrera buldg. floor 5, no 502,503	912095872	tsesja2@yahoo.com
26	Tinsae Tekeste & co.	megenuriga, metebaber buld, floor 7, no 707,708	911226567	metkegebe@yahoo.com
27	Kassa Yilala co.	bole michael p.O.Box 33123	911341647	dtinsae@gmail.com
28	Wederas Nigusie & co.	megenuriga, metebaber buld, no 403	911243694	kassayilala@yahoo.com
29	Sollyana Kiros & co	MUR buldg, no 5-01	911886231	wederere2020@gmail.com
30	Gebereemelak Berered & Co.	near meconco	911155779	ksoliyana@gmail.com
31	Behete Tensaye & co.	meshualekia, yeabisra buldg. Floor 4 No 402	911631580	gmelakberered@gmail.com
32	Solomon Dierrena & co	Diaspor square, banko buldg. No 49,491	911478963	wtensayebetele@gmail.com
33	Gelufhewu Tabor & co	Downtown buldg, floor 4, no 305	930110242	tomme74@gmail.com
34	Alaku Nurye & co	haile g/selese road, WAF buldg. No 405	930275796	gtdlabor@yahoo.com
35	Lort Bilawal & co.	old airport area, Bekole Eshere buldg. No 2474	930013256	akalunurye@yahoo.com
36	Alhaa Abdulahi &co.	22 mazoria, zerrhun buldg. Floor 3, no 44	911200165	lortr.bilawal@ethionet.et
37	Leul Zewdie &co.	22 mazoria, dembera hospital area, floor 3, no 44	911200258	alla1993awdt@yahoo.com
38	Aweke G.Selassie & co.	Meshualekia, yewuhawork buldg, no 26	911515682	leulzewdie@yahoo.com
39	Ama-tal chartered accountants Plc	Welle seffer, Ambasael buldg, no 005	911221141	gselassie@ethionet.et
40	Hailiyesus chekol & co.	Mexico, Tselere buldg, no 9c	911243405	haigeb2004@yahoo.com
41	Adane Batiso Audit service	Haile G/Selassie road, zerrhun buldg. No 493/50	911509545	amanuul.bahira@yahoo.com
42	Eyasu W. marlam &co.	Bicrate gebriel, byrne buldg, no 603	911871788	hailectv2011@gmail.com
44	Adaneche Feyissa &co.	Aral kiloo, Ambachtaw jessema buldg, no 105	91160878	batisoadane@gmail.com
45	Hassen Abake &co.	M/esekel flower, Nezar hotel, no 302	911465573	eyasuwma2014@gmail.com
46	Abeyou kifle & co.	Emperial Hotel area,yemeron senay buldg Floor 5	930012754	addunvch_2008@yahoo.com
			911858250	hassenabate@yahoo.com
			912614761	abebekiflem@gmail.com

47	A.R authorized Auditor	Bamhis, Zekala complex, no 108	911231380	aminharashud154@gmail.com
48	Solomon Thuneh & co	Mesqel flower, warkae assela buldg, Floor 2, no 4	911433904	solhtc2000@yahoo.com
49	TAV & company	Ethio -China street, Wongelawit Tadesse buldg, Floor no 1-3	930014106	tefa@rayauditing.com
50	Ephrem demessie & co	Latfo, no b26/SHOX	911515038	alemawelhu@rayauditing.com
51	Frezer Habtewold & co.	Urael, mulugeta commercial center, no 624	911515039	yehevis@rayauditing.com
52	Berhanu Retta & co	Halle G/sellassie road, haile g/sellassie buldg, no 407	911359090	efrem.demissie@gmail.com
53	Tesefaye Tefer & co.	Mesqel flower, Tibeabu buldg, Floor 4,	911078410	tehab504@gmail.com
54	Bahru Gebere & co.	Woreda O4, P.OBOX 1910 code 1100	911234415	berhanuretta@gmail.com
55	Tesefaye Gedelu & co.	Elizabeth II st, ambachewu tessema buldg, floor 4, no 406	911219104	tesefayete@gmail.com
56	Yeshanew Gorta & co.	Africa Avenue, Alomti buldg, floor 2	911864487	hahngebre@gmail.com
57	Wubshet Pawlos & co.	Nefas silk print factory, Dawi buldg, floor 3, 2nd buldg.	930075822	metpedu@yahoo.com
58	Mulugeta Eshtu & co.	Genet hotel Area, Taos buldg No 743	911678117	ypandcompany@gmail.com
59	Degefa Lemessa AA limited partnership	Bekko bet, Alnu w/Tsadik buldg, no 12	911522274	wubshetp123@gmail.com
60	Solomon Wassyyhun & co.	Kera, Beal buldg, no 705-706	911692611	mullerguale@yahoo.com
61	Abraham Tesnorie & co	22 mazorfi, Rewira buldg, floor 6, no 603	911223210	Des.Jem@ethonet.et
62	Mohammed Yasin & co	Kadisko squarer rim road	911983572	tewodros@accamail.com
63	Amare Getu & co.	Bole medhanyalem, welelaye buldg, No 406	911231360	solomon.wassyyhun@yahoo.com
64	Solomon Shewaye & co	Adenet, Giba buldg, Floor 2, no 312	911544632	atco@ethonet.et
65	Eshtu & Mesefin Audit partnership	Around commerc, Hezid buldg, No 704	930013328	mohammed.audit@yahoo.com
66	Tibebe Mengistu & co	Bole medhanyalem, abyssina plaza, floor 3,	912848329	amaregetu@gmail.com
67	Tadela Gebeyehu & co	Woreda 07, P.OBOX 2371 code 1100	912848329	kuk@accamail.com
68	Daniel Geraneh & co	Bole, Athlete birchane adere buldg, No 401	91213261	eshetuliabun@gmail.com
69	Getachew Benaieew & Co	Beshid semene hotel,	913011731	mesfinyscum@gmail.com
70	FHMIS audit partnership	Guinea conakry St. Enat tower, floor 8, no 803, 804	911428085	gobere.dossalegn@gmail.com
			930105505	mullbrannm@yahoo.com
			911400970	halleterete@gmail.com

71	Getachew Kassaye & co.	Getahun Biru buldg. No 111/09	9111202392	getachewkassaye@ethionet.et
72	Girma & Fasil Audit partnership	Africa Avenue, Dabi complex, no 5	9112121635	girma@pandauditpartners.com
73	Kalid Mohammed & co	Mentco, Klare, floor 5, no 180/638	911559050	fasil@pandauditpartners.com
			911125235	kalidom_2004@yahoo.com
74	Kokab & Mekamu Audit partnership	Amhara dev't Association buldg: Floor 2, no 208-213	911516146	melkamubete@yahoo.com
			911203778	kukmek@ethionet.et
			911448276	awthomasjp@gmail.com
			911241255	melaku@awthomas.com
75	A.W. Thomas Limited partnership	Guinea coparky St. Grant Thornton buldg. Floor 4	911489137	se-ii@awthomas.com
76	Adit Services Corporation	Josif Tito St.	930078295	demisach1@yahoo.com
77	Emmas Negussie & co	22 mazoria, Genet buldg. No- 08, 09	911229495	emmasn@ethionet.et
78	Zemedkun & Co.	Meskel square area, Anbesa buldg, floor 5, no 5c	911514799	adanezemedkun@gmail.com
79	Paulos Basazezewu & co.	Arada subcity, Amhachew Tessema, no 501	911642405	paulosbasazezewu@yahoo.com
80	Yared Dsalegn & co.	Genet commercial center, floor 4, no 401-54	936013113	yared1803@gmail.com
81	TMS plus Authorized Auditors	22 mazoria, auality buldg. No 3/305	913229425	tafessel@hormail.com
82	A.A Bromhidod & co.	Jomo kenYARA buldg. Mekane yesus buldg. Floor 4	911200074	aabromhidod@gmail.com
83	Getachewu Yememshoa & Co	Hailie B/Selesse St. Hailie buldg. Floor 3, no 303, 304	911211800	daemawite@gmail.com
84	Tawodros Asseta & Co.	Infront of genet Hotel, Tows Tower, no	911672422	lewodrrossassetab@gmail.com
85	Alemayehu Endale & Co.	Aberveire Square, Gibe buldg. floor 3, no 208	912503131	alemaenca@gmail.com
86	Tambizot Minwuye & Co.	Megercharga, metababer buldg. floor 6, no 610	911151297	tambizot@gmail.com
87	Wudu Techane & Co.	Africa avenue, demble city center, floor- 12, no 1238	911666982	wudutechane@gmail.com
88	Habtariam Tesfaye & Co.	Woreda & enat tower, floor 9, no 908	911277475	habtariam@gmail.com
89	Hafetu Tsengay & Co.	Tigray, kedamaye woyane, harambe buldg. floor 3	914300522	hafutsegay@gmail.com

Appendix B: Descriptive data out put

Educational Status

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	ACCA	59	96.7	96.7	96.7
	CPA	2	3.3	3.3	100.0
	Total	61	100.0	100.0	

Gender

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Male	55	90.2	91.7	91.7
	Female	5	8.2	8.3	100.0
	Total	60	98.4	100.0	
Missing	System	1	1.6		
Total		61	100.0		

Position

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Principal	37	60.7	60.7	60.7
	Partners	24	39.3	39.3	100.0
	Total	61	100.0	100.0	

Total work experience (Year):

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1-5	5	8.2	8.2	8.2
	6-10	2	3.3	3.3	11.5
	11-15	33	54.1	54.1	65.6
	over 15	21	34.4	34.4	100.0
	Total	61	100.0	100.0	

No. of employees

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1-10	5	8.2	8.6	8.6
	11-20	6	9.8	10.3	19.0
	20-30	17	27.9	29.3	48.3
	over 31	30	49.2	51.7	100.0
	Total	58	95.1	100.0	
Missing	System	3	4.9		
Total		61	100.0		

A_ Financial system design and implementation1

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	27	44.3	45.0	45.0
	No	33	54.1	55.0	100.0
	Total	60	98.4	100.0	
Missing	System	1	1.6		
Total		61	100.0		

B_ Taxation

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	54	88.5	88.5	88.5
	No	7	11.5	11.5	100.0
	Total	61	100.0	100.0	

C_ Accounting services

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	42	68.9	68.9	68.9
	No	19	31.1	31.1	100.0
	Total	61	100.0	100.0	

D_ Internal audit services

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	31	50.8	50.8	50.8
	No	30	49.2	49.2	100.0
	Total	61	100.0	100.0	

E_ Management functions or human resources

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	16	26.2	26.2	26.2
	No	45	73.8	73.8	100.0
	Total	61	100.0	100.0	

F_ Other non - audit services

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	20	32.8	32.8	32.8
	No	41	67.2	67.2	100.0
	Total	61	100.0	100.0	

II.1_ Auditor's independence is a key priority not only for auditors, but. Also for management and investors.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Neutral	1	1.6	1.6	1.6
	Agree	15	24.6	24.6	26.2
	Strongly Agree	45	73.8	73.8	100.0
	Total	61	100.0	100.0	

II.2_ Under mandatory audit rotation, the audit firm will be more independent and objective in performing service.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	1	1.6	1.6	1.6
	Disagree	1	1.6	1.6	3.3
	Neutral	10	16.4	16.4	19.7
	Agree	27	44.3	44.3	63.9
	Strongly Agree	22	36.1	36.1	100.0
	Total	61	100.0	100.0	

II.3_ The longer audit tenure may adversely impact auditor objectivity and professional skepticism and therefore, impair the appearance of independence.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	1	1.6	1.7	1.7
	Disagree	6	9.8	10.0	11.7
	Neutral	14	23.0	23.3	35.0
	Agree	16	26.2	26.7	61.7
	Strongly Agree	23	37.7	38.3	100.0
	Total	60	98.4	100.0	
Missing	System	1	1.6		
Total		61	100.0		

II.4_ A long term auditor-client relationship can induce an auditor to give much importance on the economic interest in preserving the client than to independence.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	1	1.6	1.6	1.6
	Disagree	10	16.4	16.4	18.0
	Neutral	9	14.8	14.8	32.8
	Agree	25	41.0	41.0	73.8
	Strongly Agree	16	26.2	26.2	100.0
	Total	61	100.0	100.0	

II.5_ Mandatory audit rotation would decrease auditors' incentive to compromise their independence through biased reporting in favor of management.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	3	4.9	4.9	4.9
	Disagree	10	16.4	16.4	21.3
	Neutral	18	29.5	29.5	50.8
	Agree	11	18.0	18.0	68.9
	Strongly Agree	19	31.1	31.1	100.0
	Total	61	100.0	100.0	

II.6_ Mandatory rotation would increase auditor's willingness to resist pressure from management.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	6	9.8	10.2	10.2
	Neutral	14	23.0	23.7	33.9
	Agree	27	44.3	45.8	79.7
	Strongly Agree	12	19.7	20.3	100.0
	Total	59	96.7	100.0	
Missing	System	2	3.3		
Total		61	100.0		

II.7_ There are other factors motivating the auditor to maintain his independence, such as the need to preserve reputation and client revenue.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	2	3.3	3.3	3.3
	Disagree	8	13.1	13.3	16.7
	Neutral	7	11.5	11.7	28.3
	Agree	27	44.3	45.0	73.3
	Strongly Agree	16	26.2	26.7	100.0
	Total	60	98.4	100.0	
	Missing	System	1	1.6	
Total		61	100.0		

II.8_ Mandatory rotation will increase the auditor's potential for dealing more appropriately with financial reporting that may materially affected client's financial statements.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	1	1.6	1.6	1.6
	Disagree	8	13.1	13.1	14.8
	Neutral	13	21.3	21.3	36.1
	Agree	26	42.6	42.6	78.7
	Strongly Agree	13	21.3	21.3	100.0
	Total	61	100.0	100.0	

II.9_ Auditor's tenure exceeding five years is not significantly perceived as reducing auditor independence.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	2	3.3	3.3	3.3
	Disagree	10	16.4	16.7	20.0
	Neutral	16	26.2	26.7	46.7
	Agree	19	31.1	31.7	78.3
	Strongly Agree	13	21.3	21.7	100.0
	Total	60	98.4	100.0	
Missing	System	1	1.6		
Total		61	100.0		

II.10_ Mandatory audit rotation can impair independence because it undermines the incentive to build up a reputation for honesty or because of the interest of the auditor in maintaining the client for the recovering of the initial investment.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	4	6.6	6.7	6.7
	Disagree	13	21.3	21.7	28.3
	Neutral	11	18.0	18.3	46.7
	Agree	15	24.6	25.0	71.7
	Strongly Agree	17	27.9	28.3	100.0
	Total	60	98.4	100.0	
Missing	System	1	1.6		
Total		61	100.0		

II.11_ Mandatory audit rotation would decrease management's ability to influence the auditors

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	1	1.6	1.6	1.6
	Disagree	11	18.0	18.0	19.7
	Neutral	15	24.6	24.6	44.3
	Agree	25	41.0	41.0	85.2
	Strongly Agree	9	14.8	14.8	100.0
	Total	61	100.0	100.0	

II.12_ Mandatory audit rotation may reduce the competition for large firm and tenure in compromise of independence.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	14	23.0	24.1	24.1
	Neutral	19	31.1	32.8	56.9
	Agree	14	23.0	24.1	81.0
	Strongly Agree	11	18.0	19.0	100.0
	Total	58	95.1	100.0	
Missing	System	3	4.9		
Total		61	100.0		

II.13_ Mandatory audit firm rotation may have promoting of financial statement users.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	7	11.5	11.7	11.7
	Neutral	16	26.2	26.7	38.3
	Agree	24	39.3	40.0	78.3
	Strongly Agree	13	21.3	21.7	100.0
	Total	60	98.4	100.0	
Missing	System	1	1.6		
Total		61	100.0		

II.14_ Due think that about possibility of mandatory audit rotation imposing more damage on audit market share.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	2	3.3	3.3	3.3
	Disagree	15	24.6	24.6	27.9
	Neutral	15	24.6	24.6	52.5
	Agree	14	23.0	23.0	75.4
	Strongly Agree	15	24.6	24.6	100.0
	Total	61	100.0	100.0	

II.15_ Mandatory audit rotation in the specific period that create low balling.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	1	1.6	1.8	1.8
	Disagree	9	14.8	16.1	17.9
	Neutral	20	32.8	35.7	53.6
	Agree	12	19.7	21.4	75.0
	Strongly Agree	14	23.0	25.0	100.0
	Total	56	91.8	100.0	
	Missing	System	5	8.2	
Total		61	100.0		

III.1_ Does your firm have a policy that requires the mandatory audit firm rotation rules?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	10	16.4	16.9	16.9
	No	24	39.3	40.7	57.6
	No answer	25	41.0	42.4	100.0
	Total	59	96.7	100.0	
Missing	System	2	3.3		
Total		61	100.0		

III.2_ How many years should the mandatory firm rotation be permitted once again?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	3<5	23	37.7	38.3	38.3
	5<8	13	21.3	21.7	60.0
	8-10	2	3.3	3.3	63.3
	No answer	22	36.1	36.7	100.0
	Total	60	98.4	100.0	
Missing	System	1	1.6		
Total		61	100.0		

III.3_ What should be the limit on the mandatory firms audit tenure periods?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	3<5	34	55.7	57.6	57.6
	5<8	18	29.5	30.5	88.1
	8-10	4	6.6	6.8	94.9
	> 10	3	4.9	5.1	100.0
	Total	59	96.7	100.0	
Missing	System	2	3.3		
Total		61	100.0		

III.4_ Do you believe that mandatory firm's should be applied uniformly for audits of all public interest company?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	27	44.3	46.6	46.6
	No	11	18.0	19.0	65.5
	No answer	20	32.8	34.5	100.0
	Total	58	95.1	100.0	
Missing	System	3	4.9		
Total		61	100.0		

Appendix C. Inferential Statistics Out put

T-Test

One-Sample Statistics

	N	Mean	Std. Deviation	Std. Error Mean
II.1_ Auditor's independence is a key priority not only for auditors, but. Also for management and investors.	61	4.72	.488	.062
II.2_ Under mandatory audit rotation, the audit firm will be more independent and objective in performing service.	61	4.11	.858	.110
II.3_ The longer audit tenure may adversely impact auditor objectivity and professional skepticism and therefore, impair the appearance of independence.	60	3.90	1.085	.140
II.4_ A long term auditor-client relationship can induce an auditor to give much importance on the economic interest in preserving the client than to independence.	61	3.74	1.079	.138
II.5_ Mandatory audit rotation would decrease auditors' incentive to compromise their independence through biased reporting in favor of management.	61	3.54	1.233	.158
II.6_ Mandatory rotation would increase auditor's willingness to resist pressure from management.	59	3.76	.897	.117
II.7_ There are other factors motivating the auditor to maintain his independence, such as the need to preserve reputation and client revenue.	60	3.78	1.091	.141
II.8_ Mandatory rotation will increase the auditor's potential for dealing more appropriately with financial reporting that may materially affected client's financial statements.	61	3.69	1.009	.129
II.9_ Auditor's tenure exceeding five years is not significantly perceived as reducing auditor independence.	60	3.52	1.112	.144
II.10_ Mandatory audit rotation can impair independence because it undermines the incentive to build up a reputation for honesty or because of the interest of the auditor in maintaining the client for the recovering of the initial investment.	60	3.47	1.295	.167
II.11_ Mandatory audit rotation would decrease management's ability to influence the auditors	61	3.49	1.010	.129
II.12_ Mandatory audit rotation may reduce the competition for large firm and tenure in compromise of independence.	58	3.38	1.057	.139
II.13_ Mandatory audit firm rotation may have promoting of financial statement users.	60	3.72	.940	.121
II.14_ Due think that about possibility of mandatory audit rotation imposing more damage on audit market share.	61	3.41	1.202	.154
II.15_ Mandatory audit rotation in the specific period that create low balling.	56	3.52	1.095	.146

One-Sample Test

	Test Value = 3					
	t	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
II.1_ Auditor's independence is a key priority not only for auditors, but. Also for management and investors.	27.574	60	.000	1.721	1.60	1.85
II.2_ Under mandatory audit rotation, the audit firm will be more independent and objective in performing service.	10.144	60	.000	1.115	.89	1.33
II.3_ The longer audit tenure may adversely impact auditor objectivity and professional skepticism and therefore, impair the appearance of independence.	6.428	59	.000	.900	.62	1.18
II.4_ A long term auditor-client relationship can induce an auditor to give much importance on the economic interest in preserving the client than to independence.	5.342	60	.000	.738	.46	1.01
II.5_ Mandatory audit rotation would decrease auditors' incentive to compromise their independence through biased reporting in favor of management.	3.428	60	.001	.541	.23	.86
II.6_ Mandatory rotation would increase auditor's willingness to resist pressure from management.	6.530	58	.000	.763	.53	1.00
II.7_ There are other factors motivating the auditor to maintain his independence, such as the need to preserve reputation and client revenue.	5.563	59	.000	.783	.50	1.07
II.8_ Mandatory rotation will increase the auditor's potential for dealing more appropriately with financial reporting that may materially affected client's financial statements.	5.330	60	.000	.689	.43	.95
II.9_ Auditor's tenure exceeding five years is not significantly perceived as reducing auditor independence.	3.598	59	.001	.517	.23	.80
II.10_ Mandatory audit rotation can impair independence because it undermines the incentive to build up a reputation for honesty or because of the interest of the auditor in maintaining the client for the recovering of the initial investment.	2.791	59	.007	.467	.13	.80
II.11_ Mandatory audit rotation would decrease management's ability to influence the auditors	3.802	60	.000	.492	.23	.75
II.12_ Mandatory audit rotation may reduce the competition for large firm and tenure in compromise of independence.	2.734	57	.008	.379	.10	.66
II.13_ Mandatory audit firm rotation may have promoting of financial statement users.	5.903	59	.000	.717	.47	.96
II.14_ Due think that about possibility of mandatory audit rotation imposing more damage on audit market share.	2.662	60	.010	.410	.10	.72
II.15_ Mandatory audit rotation in the specific period that create low balling.	3.538	55	.001	.518	.22	.81

Education- Qualification

ANOVA one way

		Sum of Squares	df	Mean Square	F	Sig.
II.1_ Auditor's independence is a key priority not only for auditors, but. Also for management and investors.	Between Groups	.161	1	.161	.672	.416
	Within Groups	14.102	59	.239		
	Total	14.262	60			
II.2_ Under mandatory audit rotation, the audit firm will be more independent and objective in performing service.	Between Groups	.307	1	.307	.413	.523
	Within Groups	43.890	59	.744		
	Total	44.197	60			
II.3_ The longer audit tenure may adversely impact auditor objectivity and professional skepticism and therefore, impair the appearance of independence.	Between Groups	2.503	1	2.503	2.171	.146
	Within Groups	66.897	58	1.153		
	Total	69.400	59			
II.4_ A long term auditor-client relationship can induce an auditor to give much importance on the economic interest in preserving the client than to independence.	Between Groups	.142	1	.142	.120	.730
	Within Groups	69.661	59	1.181		
	Total	69.803	60			
II.5_ Mandatory audit rotation would decrease auditors' incentive to compromise their independence through biased reporting in favor of management.	Between Groups	.003	1	.003	.002	.962
	Within Groups	91.144	59	1.545		
	Total	91.148	60			
II.6_ Mandatory rotation would increase auditor's willingness to resist pressure from management.	Between Groups	1.125	1	1.125	1.408	.240
	Within Groups	45.553	57	.799		
	Total	46.678	58			
II.7_ There are other factors motivating the auditor to maintain his independence, such as the need to preserve reputation and client revenue.	Between Groups	3.063	1	3.063	2.646	.109
	Within Groups	67.121	58	1.157		
	Total	70.183	59			
II.8_ Mandatory rotation will increase the auditor's potential for dealing more appropriately with financial reporting that may materially affected client's financial statements.	Between Groups	3.557	1	3.557	3.648	.061
	Within Groups	57.525	59	.975		
	Total	61.082	60			
II.9_ Auditor's tenure exceeding five years is not significantly perceived as reducing auditor independence.	Between Groups	4.552	1	4.552	3.858	.054
	Within Groups	68.431	58	1.180		
	Total	72.983	59			

II.10_ Mandatory audit rotation can impair independence because it undermines the incentive to build up a reputation for honesty or because of the interest of the auditor in maintaining the client for the recovering of the initial investment.	Between Groups	4.864	1	4.864	2.999	.089
	Within Groups	94.069	58	1.622		
	Total	98.933	59			
II.11_ Mandatory audit rotation would decrease management's ability to influence the auditors	Between Groups	2.102	1	2.102	2.097	.153
	Within Groups	59.144	59	1.002		
	Total	61.246	60			
II.12_ Mandatory audit rotation may reduce the competition for large firm and tenure in compromise of independence.	Between Groups	5.441	1	5.441	5.234	.026
	Within Groups	58.214	56	1.040		
	Total	63.655	57			
II.13_ Mandatory audit firm rotation may have promoting of financial statement users.	Between Groups	3.407	1	3.407	4.052	.049
	Within Groups	48.776	58	.841		
	Total	52.183	59			
II.14_ Due think that about possibility of mandatory audit rotation imposing more damage on audit market share.	Between Groups	2.457	1	2.457	1.720	.195
	Within Groups	84.297	59	1.429		
	Total	86.754	60			
II.15_ Mandatory audit rotation in the specific period that create low balling.	Between Groups	4.556	1	4.556	4.005	.050
	Within Groups	61.426	54	1.138		
	Total	65.982	55			

Position

ANOVA one way

		Sum of Squares	df	Mean Square	F	Sig.
II.1_ Auditor's independence is a key priority not only for auditors, but. Also for management and investors.	Between Groups	.367	1	.367	1.558	.217
	Within Groups	13.895	59	.236		
	Total	14.262	60			
II.2_ Under mandatory audit rotation, the audit firm will be more independent and objective in performing service.	Between Groups	.107	1	.107	.143	.707
	Within Groups	44.090	59	.747		
	Total	44.197	60			
II.3_ The longer audit tenure may adversely impact	Between Groups	1.469	1	1.469	1.255	.267

auditor objectivity and professional skepticism and therefore, impair the appearance of independence.	Within Groups	67.931	58	1.171		
	Total	69.400	59			
II.4_ A long term auditor-client relationship can induce an auditor to give much importance on the economic interest in preserving the client than to independence.	Between Groups	.200	1	.200	.169	.682
	Within Groups	69.604	59	1.180		
	Total	69.803	60			
II.5_ Mandatory audit rotation would decrease auditors' incentive to compromise their independence through biased reporting in favor of management.	Between Groups	.279	1	.279	.181	.672
	Within Groups	90.868	59	1.540		
	Total	91.148	60			
II.6_ Mandatory rotation would increase auditor's willingness to resist pressure from management.	Between Groups	1.416	1	1.416	1.783	.187
	Within Groups	45.262	57	.794		
	Total	46.678	58			
II.7_ There are other factors motivating the auditor to maintain his independence, such as the need to preserve reputation and client revenue.	Between Groups	.642	1	.642	.535	.467
	Within Groups	69.542	58	1.199		
	Total	70.183	59			
II.8_ Mandatory rotation will increase the auditor's potential for dealing more appropriately with financial reporting that may materially affected client's financial statements.	Between Groups	.016	1	.016	.015	.903
	Within Groups	61.066	59	1.035		
	Total	61.082	60			
II.9_ Auditor's tenure exceeding five years is not significantly perceived as reducing auditor independence.	Between Groups	2.178	1	2.178	1.784	.187
	Within Groups	70.806	58	1.221		
	Total	72.983	59			
II.10_ Mandatory audit rotation can impair independence because it undermines the incentive to build up a reputation for honesty or because of the interest of the auditor in maintaining the client for the recovering of the initial investment.	Between Groups	.711	1	.711	.420	.520
	Within Groups	98.222	58	1.693		
	Total	98.933	59			
II.11_ Mandatory audit rotation would decrease management's ability to influence the auditors	Between Groups	.223	1	.223	.216	.644
	Within Groups	61.023	59	1.034		
	Total	61.246	60			
II.12_ Mandatory audit rotation may reduce the competition for large firm	Between Groups	1.382	1	1.382	1.243	.270
	Within Groups	62.273	56	1.112		

and tenure in compromise of independence.	Total	63.655	57			
II.13_ Mandatory audit firm rotation may have promoting of financial statement users.	Between Groups	1.225	1	1.225	1.394	.243
	Within Groups	50.958	58	.879		
	Total	52.183	59			
II.14_ Due think that about possibility of mandatory audit rotation imposing more damage on audit market share.	Between Groups	1.607	1	1.607	1.113	.296
	Within Groups	85.148	59	1.443		
	Total	86.754	60			
II.15_ Mandatory audit rotation in the specific period that create low balling.	Between Groups	.096	1	.096	.079	.780
	Within Groups	65.886	54	1.220		
	Total	65.982	55			

Experience

ANOVA one way

		Sum of Squares	df	Mean Square	F	Sig.
II.1_ Auditor's independence is a key priority not only for auditors, but. Also for management and investors.	Between Groups	.319	3	.106	.435	.729
	Within Groups	13.943	57	.245		
	Total	14.262	60			
II.2_ Under mandatory audit rotation, the audit firm will be more independent and objective in performing service.	Between Groups	1.259	3	.420	.557	.646
	Within Groups	42.938	57	.753		
	Total	44.197	60			
II.3_ The longer audit tenure may adversely impact auditor objectivity and professional skepticism and therefore, impair the appearance of independence.	Between Groups	2.254	3	.751	.626	.601
	Within Groups	67.146	56	1.199		
	Total	69.400	59			
II.4_ A long term auditor-client relationship can induce an auditor to give much importance on the economic interest in preserving the client than to independence.	Between Groups	2.503	3	.834	.707	.552
	Within Groups	67.300	57	1.181		
	Total	69.803	60			
II.5_ Mandatory audit rotation would decrease auditors' incentive to compromise their independence through	Between Groups	1.359	3	.453	.288	.834
	Within Groups	89.789	57	1.575		
	Total	91.148	60			

biased reporting in favor of management.						
II.6_ Mandatory rotation would increase auditor's willingness to resist pressure from management.	Between Groups	1.178	3	.393	.475	.701
	Within Groups	45.500	55	.827		
	Total	46.678	58			
II.7_ There are other factors motivating the auditor to maintain his independence, such as the need to preserve reputation and client revenue.	Between Groups	1.400	3	.467	.380	.768
	Within Groups	68.783	56	1.228		
	Total	70.183	59			
II.8_ Mandatory rotation will increase the auditor's potential for dealing more appropriately with financial reporting that may materially affected client's financial statements.	Between Groups	.983	3	.328	.311	.817
	Within Groups	60.099	57	1.054		
	Total	61.082	60			
II.9_ Auditor's tenure exceeding five years is not significantly perceived as reducing auditor independence.	Between Groups	2.856	3	.952	.760	.521
	Within Groups	70.127	56	1.252		
	Total	72.983	59			
II.10_ Mandatory audit rotation can impair independence because it undermines the incentive to build up a reputation for honesty or because of the interest of the auditor in maintaining the client for the recovering of the initial investment.	Between Groups	17.605	3	5.868	4.041	.011
	Within Groups	81.328	56	1.452		
	Total	98.933	59			
II.11_ Mandatory audit rotation would decrease management's ability to influence the auditors	Between Groups	2.829	3	.943	.920	.437
	Within Groups	58.417	57	1.025		
	Total	61.246	60			
II.12_ Mandatory audit rotation may reduce the competition for large firm and tenure in compromise of independence.	Between Groups	3.807	3	1.269	1.145	.339
	Within Groups	59.848	54	1.108		
	Total	63.655	57			
II.13_ Mandatory audit firm rotation may have promoting of financial statement users.	Between Groups	1.572	3	.524	.580	.631
	Within Groups	50.611	56	.904		
	Total	52.183	59			
II.14_ Due think that about possibility of mandatory audit rotation imposing more damage on audit market share.	Between Groups	10.545	3	3.515	2.629	.059
	Within Groups	76.209	57	1.337		
	Total	86.754	60			
	Between Groups	2.298	3	.766	.625	.602

II.15_ Mandatory audit rotation in the specific period that create low balling.	Within Groups	63.684	52	1.225		
	Total	65.982	55			

No of Employees

ANOVA one way

		Sum of Squares	df	Mean Square	F	Sig.
II.1_ Auditor's independence is a key priority not only for auditors, but. Also for management and investors.	Between Groups	1.388	3	.463	2.048	.118
	Within Groups	12.198	54	.226		
	Total	13.586	57			
II.2_ Under mandatory audit rotation, the audit firm will be more independent and objective in performing service.	Between Groups	4.444	3	1.481	2.166	.103
	Within Groups	36.935	54	.684		
	Total	41.379	57			
II.3_ The longer audit tenure may adversely impact auditor objectivity and professional skepticism and therefore, impair the appearance of independence.	Between Groups	6.816	3	2.272	2.085	.113
	Within Groups	57.745	53	1.090		
	Total	64.561	56			
II.4_ A long term auditor-client relationship can induce an auditor to give much importance on the economic interest in preserving the client than to independence.	Between Groups	8.157	3	2.719	2.471	.072
	Within Groups	59.429	54	1.101		
	Total	67.586	57			
II.5_ Mandatory audit rotation would decrease auditors' incentive to compromise their independence through biased reporting in favor of management.	Between Groups	11.166	3	3.722	2.670	.057
	Within Groups	75.265	54	1.394		
	Total	86.431	57			
II.6_ Mandatory rotation would increase auditor's willingness to resist pressure from management.	Between Groups	1.133	3	.378	.473	.702
	Within Groups	42.340	53	.799		
	Total	43.474	56			
II.7_ There are other factors motivating the auditor to maintain his independence, such as the need to preserve reputation and client revenue.	Between Groups	3.238	3	1.079	.856	.469
	Within Groups	66.797	53	1.260		
	Total	70.035	56			

II.8_ Mandatory rotation will increase the auditor's potential for dealing more appropriately with financial reporting that may materially affected client's financial statements.	Between Groups	3.717	3	1.239	1.232	.307
	Within Groups	54.300	54	1.006		
	Total	58.017	57			
II.9_ Auditor's tenure exceeding five years is not significantly perceived as reducing auditor independence.	Between Groups	1.791	3	.597	.462	.710
	Within Groups	68.420	53	1.291		
	Total	70.211	56			
II.10_ Mandatory audit rotation can impair independence because it undermines the incentive to build up a reputation for honesty or because of the interest of the auditor in maintaining the client for the recovering of the initial investment.	Between Groups	24.844	3	8.281	5.982	.001
	Within Groups	73.367	53	1.384		
	Total	98.211	56			
II.11_ Mandatory audit rotation would decrease management's ability to influence the auditors	Between Groups	4.615	3	1.538	1.603	.199
	Within Groups	51.816	54	.960		
	Total	56.431	57			
II.12_ Mandatory audit rotation may reduce the competition for large firm and tenure in compromise of independence.	Between Groups	5.988	3	1.996	1.932	.136
	Within Groups	53.727	52	1.033		
	Total	59.714	55			
II.13_ Mandatory audit firm rotation may have promoting of financial statement users.	Between Groups	6.830	3	2.277	2.729	.053
	Within Groups	44.222	53	.834		
	Total	51.053	56			
II.14_ Due think that about possibility of mandatory audit rotation imposing more damage on audit market share.	Between Groups	15.685	3	5.228	4.154	.010
	Within Groups	67.971	54	1.259		
	Total	83.655	57			
II.15_ Mandatory audit rotation in the specific period that create low balling.	Between Groups	7.552	3	2.517	2.139	.107
	Within Groups	57.655	49	1.177		
	Total	65.208	52			

Gender

T-Test

Independent Samples Test

		Levene's Test for Equality of Variances		t-test for Equality of Means						
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
									Lower	Upper
II.1_ Auditor's independence is a key priority not only for auditors, but. Also for management and investors.	Equal variances assumed	.486	.489	-.320	58	.750	-.073	.227	-.527	.382
	Equal variances not assumed			-.345	4.912	.744	-.073	.211	-.617	.472
II.2_ Under mandatory audit rotation, the audit firm will be more independent and objective in performing service.	Equal variances assumed	1.109	.297	-1.863	58	.068	-.727	.390	-1.509	.054
	Equal variances not assumed			-3.148	7.062	.016	-.727	.231	-1.273	-.182
II.3_ The longer audit tenure may adversely impact auditor objectivity and professional skepticism and therefore, impair the appearance of independence.	Equal variances assumed	.693	.409	-1.481	57	.144	-.730	.493	-1.716	.257
	Equal variances not assumed			-1.715	5.112	.146	-.730	.425	-1.816	.357
II.4_ A long term auditor-client relationship can induce an auditor to give much importance on the economic interest in preserving the client than to independence.	Equal variances assumed	2.252	.139	-1.402	58	.166	-.691	.493	-1.677	.295
	Equal variances not assumed			-2.423	7.281	.045	-.691	.285	-1.360	-.022
II.5_ Mandatory audit rotation would decrease auditors' incentive to compromise their independence through biased reporting in favor of management.	Equal variances assumed	3.103	.083	-.467	58	.642	-.273	.584	-1.441	.895
	Equal variances not assumed			-.662	5.846	.533	-.273	.412	-1.287	.741
II.6_ Mandatory rotation would increase auditor's willingness to resist pressure from management.	Equal variances assumed	1.831	.181	-.580	56	.564	-.245	.423	-1.093	.602
	Equal variances not assumed			-.720	5.362	.501	-.245	.340	-1.103	.612
II.7_ There are other factors motivating the auditor to maintain his independence, such as the need to preserve	Equal variances assumed	1.019	.317	-1.332	57	.188	-.736	.553	-1.843	.370
	Equal variances			-2.274	4.732	.075	-.736	.324	-1.583	.110

reputation and client revenue.	not assumed										
II.8_ Mandatory rotation will increase the auditor's potential for dealing more appropriately with financial reporting that may materially affected client's financial statements.	Equal variances assumed	.548	.462	-.229	58	.820	-.109	.477	-1.064	.846	
	Equal variances not assumed			-.273	5.181	.795	-.109	.399	-1.125	.907	
II.9_ Auditor's tenure exceeding five years is not significantly perceived as reducing auditor independence.	Equal variances assumed	4.740	.034	-1.026	57	.309	-.537	.523	-1.585	.511	
	Equal variances not assumed			-1.523	6.149	.177	-.537	.353	-1.395	.320	
II.10_ Mandatory audit rotation can impair independence because it undermines the incentive to build up a reputation for honesty or because of the interest of the auditor in maintaining the client for the recovering of the initial investment.	Equal variances assumed	2.468	.122	-1.684	57	.098	-1.011	.600	-2.213	.191	
	Equal variances not assumed			-2.309	5.727	.062	-1.011	.438	-2.095	.073	
II.11_ Mandatory audit rotation would decrease management's ability to influence the auditors	Equal variances assumed	.039	.844	-1.152	58	.254	-.545	.474	-1.494	.403	
	Equal variances not assumed			-.967	4.495	.383	-.545	.564	-2.046	.955	
II.12_ Mandatory audit rotation may reduce the competition for large firm and tenure in compromise of independence.	Equal variances assumed	1.161	.286	-1.826	55	.073	-.892	.489	-1.871	.087	
	Equal variances not assumed			-2.220	5.315	.074	-.892	.402	-1.907	.123	
II.13_ Mandatory audit firm rotation may have promoting of financial statement users.	Equal variances assumed	.047	.828	-.642	57	.523	-.278	.433	-1.144	.589	
	Equal variances not assumed			-.495	4.408	.644	-.278	.561	-1.781	1.225	
II.14_ Due think that about possibility of mandatory audit rotation imposing more damage on audit market share.	Equal variances assumed	.052	.821	-1.563	58	.124	-.873	.558	-1.991	.245	
	Equal variances not assumed			-1.443	4.624	.213	-.873	.605	-2.466	.720	
II.15_ Mandatory audit rotation in the specific period that create low balling.	Equal variances assumed	.185	.669	-.600	54	.551	-.310	.516	-1.345	.725	
	Equal variances not assumed			-.514	4.559	.631	-.310	.603	-1.905	1.285	

ADDIS ABABA UNIVERSITY
SCHOOL OF GRADUATE STUDIES
MSC. ACCOUNTING AND FINANCE DEPARTMENT

QUESTIONNAIRE TO BE FILLED BY: AUDITORS

Dear: Respondent

This questionnaire is prepared for research purpose entitled “**Perception of auditors on mandatory audit firm rotation and its effect on auditor's independence**”. The expected respondents of this questionnaire are principal and/or partner of external audit firms. The study focuses on assessing the perceptions of external auditors on Mandatory audit firm rotation. I kindly request the respondents to give their honest and professional responses so as to help to make proper analysis. The data will be kept confidential and will be used for the study purpose only.

I hurtfully thank you for your kind co-operation in giving me your precious time.

I. General information/

a) Background information

1. Educational Status. ACCA CPA Msc.,BA...Other
2. Gender Male Female
3. Position: Principal Partners Audit Manager
4. Total work experience (Year): 1-5 6-10 11-15 over 15
5. No. of employees 1-10 11-20 20-30 over 31

b) The Current audit practice (Service provide to audit clients)

- | | | |
|---|--------|-------|
| a) Financial system design and implementation | 1. Yes | 2. No |
| b) Taxation | 1. Yes | 2. No |
| c) Accounting services | 1. Yes | 2. No |
| d) Internal audit services | 1. Yes | 2. No |
| e) Management functions or human resources | 1. Yes | 2. No |
| f) Other non - audit services | 1. Yes | 2. No |

Instruction: Encircle on the choice of your answer.

II. To what extent do you think that the situations of described below can effects of Audit firm rotation on perceived auditor independence.	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
1. Auditor's independence is a key priority not only for auditors, but. Also for management and investors.	1	2	3	4	5
2. Under mandatory audit rotation, the audit firm will be more independent and objective in performing service.	1	2	3	4	5
3. The longer audit tenure may adversely impact auditor objectivity and professional skepticism and therefore, impair the appearance of independence.	1	2	3	4	5
4. A long term auditor-client relationship can induce an auditor to give much importance on the economic interest in preserving the client than to independence.	1	2	3	4	5
5. Mandatory audit rotation would decrease auditors' incentive to compromise their independence through biased reporting in favor of management.	1	2	3	4	5
6. Mandatory rotation would increase auditor's willingness to resist pressure from management.	1	2	3	4	5
7. There are other factors motivating the auditor to maintain his independence, such as the need to preserve reputation and client revenue.	1	2	3	4	5
8. Mandatory rotation will increase the auditor's potential for dealing more appropriately with financial reporting that may materially affected client's financial statements.	1	2	3	4	5
9. Auditor's tenure exceeding five years is not significantly perceived as reducing auditor independence.	1	2	3	4	5

	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
10. Mandatory audit rotation can impair independence because it undermines the incentive to build up a reputation for honesty or because of the interest of the auditor in maintaining the client for the recovering of the initial investment.	1	2	3	4	5
11. Mandatory audit rotation would decrease management's ability to influence the auditors	1	2	3	4	5
12. Mandatory audit rotation may reduce the competition for large firm and tenure in compromise of independence.	1	2	3	4	5
13. Mandatory audit firm rotation may have promoting of financial statement users.	1	2	3	4	5
14. Due think that about possibility of mandatory audit rotation imposing more damage on audit market share.	1	2	3	4	5
15. Mandatory audit rotation in the specific period that create low balling.	1	2	3	4	5

III .Overall opinions on requiring mandatory audit firm’s rotation.

1. Does your firm have a policy that requires the mandatory audit rotation rules?
a) Yes b) No c) No answer

2. How many years should the mandatory firm rotation be permitted once again?
a) 3<5 b) 5<8 c) 8-10 d) > 10 e) No answer

3. What should be the limit on the mandatory firms audit tenure periods?
a) 3<5 b) 5<8 c) 8-10 d) > 10

4. Do you believe that mandatory firm's should be applied uniformly for audits of all public interest entity?
a) Yes b) No c) No answer