Auditor responsibility and fraud detection:

In Ethiopian private audit firms

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Declaration

I undersigned, and declare that this thesis is my original work and has not been presented for a degree in any other university, and that all source of material used for the thesis have been duly acknowledged.

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Addis Ababa University

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Abstract

Auditor responsibility and fraud detection: In Ethiopian private audit firms

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This study examines the roles and responsibilities of external auditors in fraud detection in Ethiopia including the factors that influence external auditors' responsibility and expert performance in detecting fraud. The study adopts a mixed methods research approach by combining data gathering instruments of research questions, in-depth interviews and document analysis. The questionnaire data were analyzed using descriptive statistics, correlations, and logistic regression analysis and data from interview and document reviews were interpreted qualitatively. The findings of the study show that, auditors are responsible for detection and uncovering fraud, and are legally liable for subsequently discovered misstatement in audited financial statements. Reporting intentions of an auditor to the concerned body depends upon the type of fraudulent act basically if it is investigative audit than financial statement audit. Fraud, in general, was not perceived to be a major problem in Ethiopian. Unwillingness to look for fraud because of fear of spoiling good relationship with clients, too much trust placed on the auditees, management and employees, auditor not giving enough emphasis to audit quality, management not having fraud policy; and, failure to focus on high-risk fraud areas. Fraudsters collusion, Absence of clear interpretation of tax law /proclamation, absence of well-organized professional body in Ethiopia are listed among the most important challenges of auditors fail to detect fraud. The study also finds that the five variables which are certification, practical experience, training, audit fee, and independence significantly influence the auditor's expert performance to fraud detection.

The study suggests that Auditors need to "audit smarter which can be accomplished by the need for auditors to be more aware in context which the audit occurs and the fact that the nature and concentration of fraud varies by industry and auditors should be aware of the development of their profession.

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List of tables

List of acronyms

ACCA	Association of Chartered Certified Accountants
AF	Audit fees
AICPA	American institute of certified public accountant
ASA	Auditing standards authority
ASC	Audit Service Corporation
CPA	Certified public accountant
EFD	Eclectic Fraud Detection
GAAS	Generally accepted auditing standards
IA	Internal audit
IAASB	International auditing and assurance standards board
IAESB	International accounting education standards board
ICAA	Institute of certified accountants and auditors
IFAC	International federation of accountants
IIA	Institute of internal auditors
IPPF	International professional practices frame work
ISA	International standard of audit

NAF	Non-audit fees
NAS	Non audit service
OFAG	Office of federal auditor general
SEC	Security and exchange commission
SOX	Sarbanes Oxley Act
U.S.GAO	United states Government Accountability Office

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Chapter one: Introduction

The audit profession is crucial to current economies because of the assurances that auditors provide to users of financial statements. Auditing increases the reliability of financial information provided to investors, owners, creditors and other users because fraudulent activities very affect to entity and auditors play an important role in detection and prevention fraud (Arens and Leobbecke 2000).

The need for external auditors may be seen as a response to the agency problem and the audit functions as a mechanism to attest to the accountability and stewardship of company management to reduce the possibility of innocent mistakes and deliberate misstatements such as fraud and management manipulation (Anderson et al, 1993). Cooper et al (1998) noted that over the years, the role of auditors become increasingly important especially in a capitalist economy as the process of wealth creation and political stability depends heavily upon confidence in processes of accountability and how well the expected roles are being fulfilled. This in turn gives the external auditor a crucial role in providing reasonable assurance to the quality of financial information presented to stakeholders and other users of financial statements.

Further according to Trang (2011), as an independent, objective party, shareholders, creditors and other interested parties rely on the audit report to determine whether to rely on the information for decision making. Hence, in planning and performing the audit to reduce audit risk to an acceptably low level, the auditor should consider the risks of

material misstatements in the financial statements due to fraud. Kell et al (2005) in their review of the historical development of the auditors duty to detect and report fraud claimed that auditors are required to be more proactive in searching for fraud during the course of an audit under revised international standard on audit number 240 which includes considering incentives and opportunities presented to potential fraudsters, as well as rationalizations that the fraudulent acts are justified. Auditors are expected to inquire more closely in to reasons behind such matters as, for example, errors in accounting estimates, unusual transactions that appear to lack business rational, and a reluctance to correct immaterial errors discovered by the audit.

However, according to the audit firms and researcher audit experience auditors do their job in a way that secures their personal careers, their continuing contracts as auditors or promotes the other business interests of their firm rather than a way that fulfills their legal and moral professional obligation to shareholders and other stakeholders. Even when fraud appears in a business, they fail to express their opinion on the fraud committed and fail to detect financial statements where fraud committed lies. To this end, this study is significantly place as its main focus on roles and responsibilities of external auditors in fraud detection in Ethiopia.

Over the years, various researchers like Mihret (2010), Muluneh Beyene (2007), and Abdella Mudesir (2009) in their different capacities have taken a closer look at auditing practice in Ethiopian with respect to internal and external auditors. However; most

studies in auditing concentrate on the audit activity and performance of business firms, and their effect on future returns. This study therefore attempts to fill the gap and proposes to ascertain the role and responsibilities of the external auditors in ensuring that the organization have reliable financial statements, the expert performance of external auditors in fraud detection and find out the challenges the ext.ernal auditor encounter in performance of their duties.

In the context of the above discussions, the purpose of this study is to examine the role and responsibilities of external auditors in fraud detection in Ethiopian private audit firms and investigate the factors that influence external auditors' responsibility and expert performance in detecting fraud.

1.1 Statement of problems

There is a great reliance of public trust on audited financial statements and accounting reports as they constitute the bedrock of the financial markets. This means that the auditors at all times must be objective in performing their duties (Mudessir 2009).

Corporate fraud and accounting scandals have led to a heightened focus on the regulation of auditors. The potential compromise to auditor independence when an audit firm provides audit services to an audit client is a primary area of concern emerging from corporate, accounting scandals and even the independence of the

auditor of a company‟s financial statements, the value they place on those financial statements may be seriously compromised(Arjarquah 2009).

The most known financial scandals and audit failures of Enron and WorldCom just to mention a few, have brought up a lot of attention in media. These scandals have indicated the lack of ethics at the executive levels. Audit failure has meant that the accounting profession is confronted with the crisis of confidentiality and credibility. Criticism of the profession is widespread and harsh in the changing economic, social and regulatory climate in which the profession at present functions (Hemraj 2002). This series of a big name fraud in the past has been accompanied by lawsuits against auditors because of their suspected negligence in not detecting the financial statement fraud. As a result, auditors have risked the loss of money and what is even more influential, the loss of their reputations. This situation has pushed auditors and the related organizations and institutions to improve the audit processes in order to be more effective in identifying risk and collecting evidence for issuing audit opinions on financial statements.

Financial statements cannot be useful if they are based on unreliable and inaccurate recordings of transactions. The problem is that financial statement users cannot usually assess the presence of garbage simply by reading the statements. The statement may look fine, but in reality be riddled with inaccuracies as a result of deliberate dishonesty and incompetence.

Moreover, audit failure range from allegations of technical incompetence (often due to cost cutting and inadequately trained staff) and lack of diligence in getting beyond the paper figures to the underlying economic realities, to charge of illegality and deception that amount to gross immorality, in particular where the failure to conduct a proper audit is attributed to a conflict of interest. Auditors do their job in a way that secures their personal careers, their continuing contracts as auditors or promotes the other business interests of their firm rather than a way that fulfills their legal and moral professional obligation to shareholders and other stakeholders. To combat these problem firms regularly hire an outside audit firm to audit financial statements (Campbell, 2005).

When fraud appears in a business, people always ask question: "How it happen?" This question raises the question of whose responsibility to prevent and detect fraud. Therefore, many people who read financial statements believe that auditors are ultimately responsible for the financial statements. Some people also think that the auditors have responsibility to detecting all errors, fraud, and unlawful acts. The role of the auditors is also to express an opinion on the financial statements. Hence, it is important to remember that while auditors do have important responsibilities, they fail to express their opinion on the fraud committed and even fail to detect financial statements where fraud committed lies.

In developing countries like Ethiopia, the efficient practices of the auditors in their responsibilities has not yet developed very well (Muluneh 2007). Auditors

only do their job in a way that secures their personal careers, their continuing contracts as auditors or promotes the other business interests of their firm rather than a way that fulfills their legal and moral professional obligation to shareholders and other stakeholders. Even when fraud appears in a business, they fail to express their opinion on the fraud committed and fail to detect financial statements where fraud committed lies .Therefore, all the above discussed problems along with the gap in the literature need to conduct extensive research on auditor‟s responsibility and fraud detection.

1.2 Objective, research questions and hypotheses

In light of the problems highlighted above, the broad objective of this study is to examine the roles and responsibilities of external auditors in fraud detection in Ethiopia and also investigate the factors that influence external auditor‟s responsibility and expert performance in detecting fraud. Based on the broad research objective, the following research questions and hypotheses were developed.

Research questions (RQ)

RQ1. *To what extent do private external auditors exercise their professional responsibilities?*

RQ2. *What are the roles of external auditors in detection and prevention of fraud?*

RQ3. *What constraints exist on private auditors in attempting to exercise their professional responsibilities?*

Hypotheses (HP)

To achieve the objective of this study, in addition to the research questions presented above the following hypotheses concerning the auditor‟s expert performance to fraud detection task would be tested,

H1: There is a significant positive relationship between auditor certification and auditors' fraud detection capabilities.

H2: There is a significant positive relationship between training and auditors' fraud detection capabilities.

H3: There is a significant positive relationship between practical experience and auditors' fraud detection capabilities.

H4: There is a significant positive relationship between audit fee size and auditors' fraud detection capabilities.

H5: There is a significant positive relationship between independence and auditors' fraud detection capabilities.

1.3 Research methodology

With the purpose of achieving the main research objectives a mixed approach (both quantitative and qualitative) is adopted. The purpose of using such a mixed approach is to gather data that could not be obtained by adopting a single method and for triangulation so that the findings with a single approach could be corroborated with others wherever possible. A short explanation about each of the key data collection methods adopted in this study is given below.

The study used surveys of auditors in sampled audit firms with semi- structured questionnaires. The surveys were planned to obtain data relevant on roles and responsibilities of auditor in fraud detection, extent of fraud in Ethiopia and its impact on users and the company, constraints exist on external auditors in attempt to exercise their responsibility and factors affecting auditors" expert performance to fraud detection.

With the aim of showing and exploiting useful information which is not available from other sources, in-depth interviews are held with the audit mangers and partners of audit firms.

1.4 Scope and limitation of the study

This study is confined within the realm of the responsibility of audit firms in relation to fraud detection in Ethiopia particularly, those external audit firms working in Addis Ababa. Due to absence of nationally promulgated standards to be followed by all auditors in the country and in all sectors , the study depend on those auditing standards by American institute of certified public accountant (AICPA) namely, Generally accepted auditing standards (GAAS), international federation of accountants (IFAC) code of ethics and international standards of auditing (ISA) which is issued by IFAC through the international auditing and assurance standards board (IAASB) and other standards which auditors currently applying in their respective audit firms.

Lack of previous research studies and accessibility of sufficient current literatures on the subject of auditor responsibility and fraud detection in the context of Ethiopian is another off-putting factor.

This research could not be seen from audit client‟s viewpoint which is in fact relevant to include this to come up effective results and the researcher believed this will be another research area.

1.5 significance of the study

This study is aimed at finding out the responsibilities of external auditing in enhancing the reliability of published financial statements. The present study therefore seeks to provide academia and scholars as well as the business groups with important insight into the extent to which reliance could be placed on an audited financial statement. In addition, based on the empirical findings about auditing methodology obtained from existing studies and interviews with various auditing firms in Ethiopia, provide insights into the external auditors judgment in fraud risk assessment and detection of fraud which could be beneficial to auditing firms seeking to improve process to maintain their viability in the auditing industry.

Further, although numerous studies conducted in developed and developing nations in the area of fraud detection, to the extent of the researcher knowledge no single study was conducted to examine the role and responsibilities of auditors in fraud detection Therefore, this thesis shade a new light for Ethiopian auditors fraud detection studies and the importance of giving a thorough thought for different fraud studies. Finally, the result of this study will use as an input for interested researchers in the field to understand how important is the auditors in detecting fraud for reliable financial statement studies.

1.6 Structure of the thesis

The study organized into five chapters. Chapter one presents the introduction aspect of the research which includes: background of the study, statement of the problem, methodology of the study, objectives, research questions and hypothesis of the study, scope and limitation of the study, significance of the study and organization of the paper itself. Chapter two contains a review of literature of most significant and theoretical and empirical studies. The research design and methodology presented in chapter three. In addition, chapter four present results and discussions that is, the findings of all the different methods adopted in this study are pooled together and the research questions would be answered. Finally, chapter five presents its major findings and possible recommendations.

Chapter two: Literature review

This chapter presents the literature review and tries to relate the existing literatures to this study. The main essence of this chapter is to enable readers‟ get a grasp of what is already known within the area of study. It mainly focuses on the review of both the theoretical and empirical evidence on the auditor‟s responsibility and quality of detecting fraud.

The review has three sections. Section 2.1 presents a review of the theory of fraud and external auditors as a theoretical framework. This is followed by a review of the relevant empirical studies on fraud and auditors responsibility in fraud detection in section 2.2. At the last, conclusions on the literature review and knowledge gaps are presented in section 2.3.

2.1. Theoretical frame work

There is no general theory of auditor responsibility and fraud that provides a unifying framework for the study of auditor responsibility and fraud detection to private audit firms, to the knowledge of researcher . Because of this, this study tries to view some assumptions which is nearer to the concept of auditor responsibility and fraud detection to private audit firms. Hence, section 2.1.1 presents the concept of fraud. Then, section 2.1.2 presents the factors influencing auditors‟ expert level of fraud detection capabilities. And section 2.1.3 presents the theories related auditors role and responsibility. Finally, section 2.1.4 the constraints that exist on auditors in their attempt to discharge responsibility.

2.1.1. Fraud

As a legal concept, fraud is a broad concept and covers a wide range of activities. ISA number 240, the Auditor‟s responsibilities to Consider Fraud in an Audit of Financial Statement (Revised) refers fraud as an intentional act by one or more individuals among management, those charged with governance, employees or third parties, involving the use of deception to obtain an unjust or illegal advantage. Allyne and Howard (2005), define fraud as intentional deception, cheating and stealing. Some common types of fraud include creating fictitious creditors, ghosts on the payroll, falsifying cash sales, undeclared stock, making unauthorized write-offs, and claiming excessive or never-incurred expenses. They classified fraud into: employee embezzlement, management fraud, investment scams, vendor fraud, customer fraud, and miscellaneous fraud. Pollick, (N.d) regards fraud as a deliberate misrepresentation, which causes one to suffer damages, usually monetary losses.

According to Pollick, most people consider lying as fraud, but, in a legal sense, lying is only one small element of actual fraud. Fraud also involves complicated financial transactions conducted by the white financial reporting process and auditing functions. According to Black Law Dictionary, fraud also means taking advantage over another person by providing false, misleading suggestions or by suppression of the truth. Fraud is the intentional distortion of financial statements or other records by persons internal or external to the authority, carried out to conceal the misappropriation of assets or otherwise for gain. In the Anti-fraud policy in Murdoch University (2001), fraud is described as inducing a course of action by deceit or other dishonest conduct, involving acts or omissions or the making of false statements,

orally or in writing, with the object of obtaining money or other benefits from or by evading a liability. Therefore, fraud is not restricted to monetary or material benefits. It includes intangibles such as status and information. Therefore, as fraud is an ever present threat to the effective utilization of resources, it will always be an important concern of management.

2.1.2 Factors influencing auditors' expert level of fraud detection capabilities

In these section theories in respect to Factors influencing auditors‟ expert level of fraud detection capabilities has been reviewed.

2.1.2.1 Certification

Certification is the percentage of external auditors in the external audit function who have the CPA certification. The purpose of certification is to establish a reliable, standardizing testing instrument that adequately assess the levels of specialized competency necessary to practice proper financial statement examination (Rezaee and Burton 1992). Professional certification obtained from a formal education process demonstrates an individual auditor‟s minimal level of competency (Mui 2009).

2.1.2.2 Training

Among the factors noted to be influencing the auditor‟s capabilities to detect fraud, availability of continuous training of auditors is singled out as very cogent (Nystrom 1997).

Auditors should have a complete foundation in audit training like computers and other information technology. They need to have the ability to realize the opportunities computers render to possible perpetrators of fraud as well as an ability to use computers

in analysis and documentation of alleged fraud (Bologna et al.1993). an auditor to be effective as expert witness, he or she should have good communication skills, able to think logically while under pressure, and should have able trained to exhibit financial data in financial statements for improved fraud detection and deterrence through educational seminars and others means , including establishing qualification for the auditor, assisting parties who wish to retain the services of auditors, maintain the competency of auditor through continuing professional education (Nystrom 1997). Continuous learning can develop experience through methods such as case studies, and simulations to keep updated with fraud detection knowledge. Continuous learning in the fraud detection task is an important activity as it enables auditors to stay abreast of: (1) changes in the technical aspects of how fraud can be perpetrated; and (2) changes in the environment in which fraud can be perpetrated (Mui 2009).

2.1.2.3 Experience

It was found that the brand name (high reputation) of an audit firm is not enough to promote the audit quality through identification of fraud, but the industry knowledge and specialization is an important part of the auditor‟s experience. As the auditor‟s knowledge and experience with a client‟s industry the auditor is more able to detect potential material misstatements and to put basis and hypotheses for industry specific routine errors (Knechel et al. 2007). Moreover, it was found that the auditor's experience in detecting material misstatements decline when they spend longer tenure with their clients, that they rely on their previous experience with the client rather than exerting more effort (Meyer et al., 2007), an issue that would suggest the mandatory rotation as solution to overcome such staleness. Since the auditor‟s experience is an indicator of a

high quality as it increases, in this paper it will be assessed whether a client company will switch to a more experienced one in order to promote the auditors quality of fraud identification.

Other strategies would suggest that the auditor should be composed of a particular and extensive experience which increases in accountability and reporting demands on fraud detection by the auditors themselves (Knapp 2000). Audit experience is related to how long the auditor works and to how many audit engagements have been finished (suyono 2012).

According to Nystrom (1997), experienced auditor able to identify accounting problem areas, rank these problem areas or topics as necessary, and properly clarify the focal point of investigation or refocuses the investigation as new information is acquired and evaluated. The importance of experience can be demonstrated when the experienced auditor, having knowledge of many different types of fraud based on first hand examination experience, obtains a more effective plan of examination. The more fraud base the experienced auditor has been involved in, the broader his knowledge base (Bologna et al.1993).

Coklin (1993) found that someone with more experience in a specific field had more ability in developing specific cases related to his/her experience and Technically, the audit expertise will increase with more experience in doing audit tasks. More experience will give more audit quality, particularly in making audit judgments.

2.1.2.4 Audit fee size

The audit activity must have sufficient funding relative to the size of its audit responsibilities.

This important element should not be left under the control of the organization under audit because the budget impacts the audit activity‟s capacity to carry out its duties (belay 2007). According to Johnson (1998), examining the relationship between audit fees and auditors effort in detecting fraud is likely to aid the understanding of quality and independence of auditor, and also provide a better insight into the market of audit services. In a competitive market for audit services it is reasonable to argue that when an auditor charges a premium fee to a client this will be associated with a better quality of assurance services provided. That might be related to the ability of the auditor to be in a stronger position to negotiate audit fees with clients (Palmrose 1989).

There are many reasons that cause a positive relationship between the auditor fees and the auditor fraud detection quality. Actually more investigation and audit procedures will require more audit hours ,higher cost due to the use of more experienced and specialized staff and thus, higher audit fees (O‟Sullivan 2000; Ghosh and Pawlewicz, 2008).

However large audit fees paid by the client make the auditor more economically dependent on the client, thus it forces the auditor to be more reluctant in inquiring the client during the audit as fearing from losing him. After the Sarbanes Oxley Act (SOX), total fees to audit firms have increased indicating that total revenues from audit clients will increase after the SOX rotation decision. This is due to the increased litigation an auditor would be exposed to, as a result the auditor will exert more effort and time and

this will dictate on him increasing his audit fees required and thereafter, the quality (Ghosh and Pawlewicz, 2008).

In this paper, the auditor‟s fees is considered a measure for the assessment of the auditors expert performance in fraud detection, as it is assumed that high/low audit fees reflects a high/low fraud detection quality . Thus fees paid to auditors can affect auditor‟s fraud detection expertise in two ways: large fees paid to auditors may increase the effort exerted by auditors, hence, increasing fraud detection expertise. Alternatively, large fees paid to auditors, particularly those related to non-audit services, make auditors more economically dependent on their clients (Hoitash et al. 2007). Based on previous research related to the relationship between audit fees, non-audit fees and total fees to the fraud detection have been concluded that the results vary i.e. positively related (Choi et al. 2010 and Yu 2007), negatively related (Hoitash et al. 2007), and no relationship (DeFond et al. 2002).

To reduce the risk of litigation in the future because of the lack of experience of the auditor, many auditors require greater audit fee to prospective clients. Audit fees reflect the amount of collected audit evidence and an additional premium for protection against the risk of litigation. The greater expected audit fees can be used by audit firm to fund all costs of the audit process and extend audit procedures.

Several previous studies have concluded that the amount of the audit firm‟s fees affect positively on audit quality i.e. the research results from (Choi et al. (2010) and Yu (2007)).

2.1.2.5 Independence

A professional accountant, member of assurance teams and firms should be independent in the performance of professional services for the client. Independence requires the state of mind that permits the provision of an opinion without being affected by influences that compromise professional judgment, allowing an individual to act with integrity, and exercise objectivity and professional skepticism.

Besides it requires that avoidance of facts and circumstances that are so significant that a reasonable and informed third party, including safeguards applied, would reasonably conclude a firm‟s or a member of the assurance team‟s, integrity, objectivity or professional skepticism had been compromised.

An independent audit provides a necessary external check on the integrity of financial statements. Auditor‟s independence is important in the context of audit quality because the independent audit is critical to the credibility and integrity of financial statements. A lack of independence impairs an auditor‟s ability to exercise objective audit judgments and affects confidence in the audit process (Treasury 2010).

Alim (2007) found empirical evidence that auditor‟s independence had a significant effect on audit quality. Without audit service by an independent party, the reliability of financial statements could not be assured. Burger(1990) considers independence to be a crucial concept that sets auditors a part from the accountancy profession, as their core mission is to certify the public reports that describe companies‟ financial status- an exclusive function performed by auditors for society (Burger 1990).

2.1.3 Role and responsibilities of external auditors in detecting of fraud

An auditor has the responsibility for the prevention, detection and reporting of fraud. Illegal acts and errors are the most controversial issues in auditing, and have been the most frequently debated areas amongst auditors, politicians, media, regulators and the public (mahdisalehi and alimansoury 2009*)*.

The external auditor provides a crucial role in providing reasonable assurance to the quality of financial information presented to stakeholders and other users of financial statements. As an independent, objective party, shareholders, creditors and other interested parties rely on the audit report to determine whether to rely on the information for decision making. The two primary characteristics that most stakeholders expect from the external auditor are competence and independence. State licensure requirements address the technical competency aspects of the external auditor. The state of independence is more difficult to determine. The role of auditors has not been well defined from the inception (Alleyne and Howard 2005). Porter (1997) reviews the historical development of the auditor‟s duty to detect and report fraud over the centuries and shows that there is an evaluation of auditing practices and shift in auditing paradigm through a number of stages.

Boynton et al (2005) claim that auditors are required to be more proactive in searching for fraud during the course of an audit.

External auditor duties now include considering incentives and opportunities presented to potential fraudsters, as well as rationalizations that the fraudulent acts are justified. Auditors are also expected to inquire more closely into reasons behind such matters as, for example, errors in accounting estimates, unusual transactions that appear to lack

business rationale, and a reluctance to correct immaterial errors discovered by the audit.(ISA 240)

A study by Jensen and Meckling (1976) shows how a role for auditors arises naturally from the existence of outside ownership, or equity, claims against a firm. As managers‟ share of firm ownership declines, they have the incentive to boost their own total compensation, including all types of fringe benefits, at the expense of the other owners. Potential investors, recognizing that the owner managers have this incentive, reduce the price they are willing to pay for shares in the firm. But if the owner-managers can commit to limiting their perquisites, investors will be willing to pay more for shares, benefiting the owner managers‟ efforts to expand the firm. Subjecting the firm‟s financial records to an independent audit can enhance the credibility of such a commitment by the owner-managers.

Jensen and Meckling (1976) further shows that similar considerations apply to a firm funded by debt, or bonds. In this case, the owner-managers borrow money to run the business. Here, too, the managers‟ incentives differ from those of the individuals funding the firm. After managers have raised funds from debt holders, they can benefit by investing the money in high-risk activities. Debt holders recognize the managers‟ and shareholders‟ incentive to pursue high-risk activities, potentially at their expense, and therefore demand a higher rate of interest, or a risk premium, on the money lent to the firm. However, by committing in a debt covenant to policies that limit debt holders‟ risk exposure, the managers and shareholders may be able to reduce the premium. An independent auditor can help the managers and shareholders demonstrate to debt holders that such risk-limiting policies are being followed.

Similar considerations apply to the role of debt covenants and auditing in addressing the underinvestment problem. Myers (1977) analyzes, in which the shareholders of a firm with outstanding debt can have the incentive to reject investment projects with a positive net value if the proceeds would accrue to debt holders. Smith and Warner (1979) describe various types of covenants to protect bondholders from managers‟ and equity holders‟ incentives to act against their interests. Auditing can help verify the accounting criteria in such covenants and help ensure that the agreements are honored. If those investments pay off, the managers can repay the debt holders the promised amount and keep the remainder for themselves. If the investments perform poorly, they can simply default on the debt. In this case, shareholders are on the side of the managers, since they, too, could benefit from high-risk activities once the debt has been issued. According to the above researches, several factors may affect audit detection of fraud and irregularities. In this study the researcher is going to look at effect of audit regulation on fraud detection.

Auditors perform an audit so as to add credibility to management's inherent assertions included in the financial statements which is achieved by gathering and evaluating audit evidence. Even though the primary objectives of audit have not changed in recent years the change in audit approach has resulted in a significance evolution of auditing procedures. What the emphasis on internal control review has brought about however, is the development of additional audit objectives in the evaluation of internal controls. The auditor is placed in a position enabling him to suggest improvement in the clients accounting system and controls as well as to offer ideas for improving financial planning, tax planning and clerical efficiency (Burton and Porter 1971).

The auditors aim is to determine whether the report prepared by manager conforms to the contracts provisions. The auditors verification of the financial information adds credibility to the report and reduces information risks; potentially benefiting both the owner and the manager.

While auditing is only one possible form of additional monitory, the extensive presence of auditing in such situation suggests that auditing is a cost effective monitory device (Glover and Prawtt 2004).

2.1.3.1 Auditor's Professional Responsibilities

The U.S. Government Accountability Office U.S.GAO (2007) cited by Muluneh 2007, publicized through internet that preparation of financial reports is the responsibilities of the auditee entity not the auditor. Thus, Officials of the audited entity entrusted with handling public and private resources and auditors of government programs or entity fulfill essential roles and responsibilities in ensuring that public resources are used efficiently, economically, effectively, and legally. Audit organizations also have the important responsibility of ensuring that auditors can meet their responsibilities.

These unique roles involve using sound management practices and providing professional audits and attestation engagements (U.S GAO). As explained by the U.S Government Accountability Office, the following are the auditors" Responsibilities:

- ✓ In discharging their professional responsibilities, auditors need to observe the principles of serving the public interest and maintaining the highest degree of integrity, objectivity, and independence. The public interest is defined as the collective well-being of the community of people and entities the auditors serve. These principles are fundamental to the responsibilities of auditors.

- ✓ Auditors should act in a way that will serve the public interest, honor the public trust, and uphold their professionalism. A distinguishing mark of a profession is acceptance of its responsibility to the public. This responsibility is critical when auditing in the government environment. GAAS embody the concept of accountability, which is fundamental to serving the public interest.
- ✓ Auditors need to make decisions that are consistent with the public interest in the program or activity under audit. In discharging their professional responsibilities, auditors may encounter conflicting pressures from management of the audited entity, various levels of government, and others who rely on the objectivity and independence of the auditors. In resolving those conflicts, auditors are responsible for acting with integrity, guided by the precept that when auditors fulfill their responsibilities to the public, these individuals‟ and organizations‟ interests are best served.
- ✓ To maintain and broaden public confidence, auditors need to perform all professional responsibilities with the highest degree of integrity.

Auditors need to be professional, objective, fact-based, nonpartisan, and non-ideological in their relationships with audited entities and users of the auditors‟ reports. Auditors should be honest and candid with the audited entity and users of the auditors‟ work in the conduct of their work, within the constraints of the audited entity‟s confidentiality laws, rules, or policies. Auditors need to be prudent in the use of information acquired in the course of their duties. They should not use such information for any personal gain or in any manner that would be detrimental to the legitimate and ethical objectives of the audited entity.

- ✓ Service and the public trust should not be subordinated to personal gain and advantage. Integrity can accommodate the inadvertent error and the honest difference of opinion; it cannot accommodate deceit or subordination of principle. Integrity requires auditors to observe both the form and the spirit of technical and ethical standards; circumvention of those standards constitutes subordination of judgment. Integrity also requires auditors to observe the principles of objectivity and independence.
- ✓ Auditors should be objective and free of conflicts of interest in discharging their professional responsibilities. Auditors are also responsible for being independent in fact and appearance when providing audit and attestation services. Objectivity is a state of mind that requires auditors to be impartial, intellectually honest, and free of conflicts of interest. Independence precludes relationships that may in fact or appearance impair auditors‟ objectivity in performing the audit or attestation engagement. The maintenance of objectivity and independence requires continuing assessment of relationships with the audited entities in the context of the auditors‟ responsibility to the public.
- ✓ In applying GAAS, auditors are responsible for using professional judgment when establishing scope and methodologies for their work, determining the tests and procedures to be performed, conducting the work, and reporting the results. Auditors need to maintain integrity and objectivity when doing their work to make decisions that are consistent with the broader public interest in the program or activity under review. When reporting on the results of their work, auditors are responsible for disclosing all material or significant facts known to them which,

if not disclosed, could mislead knowledgeable users, misrepresent the results, or conceal improper or unlawful practices.

- ✓ Auditors are responsible for helping management and other report users understand the auditors‟ responsibilities under GAAS and other audit or attestation coverage required by law or regulation. To help managers and other report users understand an engagement‟s objectives, time frames, and data needs, auditors need to communicate information concerning planning, conduct, and reporting of the engagement to the parties involved during the planning stages of the audit or attestation engagement (U.S GAO 2007).

On the other hand, as per U.S Government Accountability Office audit organizations‟(auditors) have responsibility for ensuring that (1) independence and objectivity are maintained in all phases of the assignment, (2) professional judgment is used in planning and performing the work and in reporting the results, (3) the work is performed by personnel who are professionally competent and collectively have the necessary skills and knowledge, and (4) an independent peer review is periodically performed resulting in an opinion issued as to whether an audit organization‟s system of quality control is designed and being complied with to provide reasonable assurance of conforming with professional standards. While management is responsible for addressing audit and attestation engagement findings and recommendations and tracking their status of resolution, audit organizations are responsible for establishing policies and procedures for follow-up to determine whether previous significant findings and recommendations are addressed and are considered in planning future engagements (U.S GAO 2007).

Also Anderson (1984) pointed out that, auditors‟ professional responsibilities are governed by the rules of professional conduct whose enforcement is handled exclusively by the local standards. Most of these rules, however, refer to the accounting and Auditing standards of the profession, which in turn influenced by the recommendations in local standards. Among the auditing recommendations, the most fundamental are GAAS.

Meigs, et al (1991), explores in their study, GAAS are authoritative rules for measuring the quality of performance. Also as per Arens and Loebbecke (2012), the existence of GAAS is evidence that auditors are very concerned with the maintenance of a uniformly high quality of audit work by all independent public accountants. If every public accountant has adequate technical training and performs audits with skill, care, and professional judgment, the prestige of the profession will rise, and the public will attribute more and more significance to the auditors‟ opinion attached to financial statements (Arens and Loebbecke 1991).

Moreover, lynch (2004) discusses that the auditor has no responsibility for the prevention and detection of fraud and error. As a responsibility, auditor‟s should design audit procedures to obtain reasonable assurance that those frauds and errors which are material and might impair the truth and fairness have not occurred, or that if they have occurred they have either been corrected or properly disclosed in the financial statements.

The auditor should have a responsibility to report to the management and those charged with governance of an enterprise when the audit has brought to light any irregularities or errors. When the matter is material he/ she should ensure the management are informed promptly and that, where appropriate, a report is made to the board of directors or the audit committee.

Auditors should report to the users of the audit report to the extent that in their opinion, the “true and fair view” or “fair presentation”, is affected (lynch 2004).

Therefore, from the above researchers‟ discussion it is wise to summarize that management of an entity is responsible for the efficient, economic and effective utilization of entity's resources. Besides it is the responsibility of the management preparing financial statement for easy verification. On the other hand, it is the responsibility of auditors to form an independent opinion based on audit examination and to report the findings to the users of audited financial statements. Accordingly, auditor should base on standards or principles formulated by the professional and /or regulatory body to which they are members or by which they have been regulated.

2.1.3.2 Auditors Legal Responsibilities

According to Megs et al (1987), the auditor‟s legal responsibility can be statuary, contractual or both. Statutory responsibility is based on the mandatory audit requirement in the federal and local business act. Contractual responsibility drives from an agreement mutually decided up on by the auditor and the client. Both may also agree to certain functions in addition to the statutory requirements; in such case, the auditor will be responsible to the client for both the statutory and the additional contractual requirements. Besides auditors must be familiar with the specific act applicable to each of their clients.

The auditors‟ statutory responsibilities and company or national legislation consist of the general duty that auditors have to report to users on whether the financial statements of the company show a „true and fair view‟ or „present fairly‟ the financial position and

results of its operations. Specific duties such as to consider whether the information in the management report is consistent with the financial statements and whether proper accounting records have been kept by the company were also considered as stippled in statutory requirements (Lynch 2004).

As per Anderson (1984), legal responsibilities of the external auditor arise from one or more of statues, as interpreted by common law; contract, as governed by common low; and tort, as governed by common law.

From the above discussions, the researcher concludes that auditor is legally responsible for both contractual agreement made between the auditor and the client; and statutory audit requirements.

From Ethiopian perspective auditing Standards are the criteria or yardstick against which the qualities of audit results are evaluated. They provide minimum guidance for the auditor that helps to determine the extent of auditing steps and procedures that should be applied in the audit work.

Similarly, the Ethiopian Government Auditing Standards stated that the statement of auditing standards describes the basic principles which govern the auditor‟s professional responsibilities and which must be complied with whenever an audit is carried out. It provides a framework within which professional judgment must be exercised and establish the minimum standard to be followed on individual audits (OFAG: Ethiopian Government Auditing Standards 2004).

Due to absence of a well-organized and empowered professional accounting and auditing body in Ethiopia at the present time, there are no formalized professional standards issued

by any authority in the country. However, OFAG have adopted minimum auditing standards incorporated in their respective audit standards which it has developed.

The task of preparing detailed ethical principles and rules is primarily that of the professional associations and that all members of the associations have the responsibilities to accept, implement and enforce such requirements. In Ethiopia, due to the absence of an organized strong national professional association there is no comprehensive set of ethical standards to govern the behaviors of professional accountants. In the case of authorized auditors, it is assumed that they adhere to the code of ethics set by the professional bodies to which they are members (OFAG 2004).

2.1.4 The constraints that exist on auditors attempt to exercise their responsibility

According to Aamir, et al (2011), one of the foremost but uncommon problem for auditor would be an attempt of sophisticated fraud from the client‟s side, which is that a client purposefully wants to hide certain material misstatements so that the auditor could not detect it. The most common reason for the audit failure would be that an audit itself was not effective and efficient, or that the audit was not planned in a proper way. Due to the lack of proper planning, it is difficult for an auditor to assess the main and significant risks are present in the client firm, so in this way the auditor focuses on wrong aspects rather than the ones which need to be scrutinized.

Weak knowledge of the auditor regarding the client firm is another factor, which could lead to an audit failure. This would be due to the fact that complete information or scenarios were not presented by the client to the auditor in a clear and adequate, and the opinion presented by the auditor has been on the availability of provided information.

Aamir also justifies, an audit failure is not due to the process of audit involved in the audit engagement rather it is due to the unavailability of information. The consequences of an audit failure could be that an auditor is being sued due to the issuance of wrong audit opinion concerning the financial reports, or maybe you do not get paid for the audit services (with a smile).

But the authorities do look into the case and decide that who was guilty party in the audit failure and based on that the guilty party is subject to the charges in the law.

Further, According Aamir (2011) one of the reasons for audit failure is the time allocated for the audit engagement. For instance sometimes there are only 10-hours allocated out of which you have to both detect the problem and keep communication and coordination with colleagues. Due to budgetary concerns the time limit could not be extended and therefore it turns out to be difficult to discover problems and detect material errors within such short period of time. Other than this an audit failure could be due to improper audit planning, and due to mistakes in the planning process you can miss important factors in the audit of the client firm. And sometimes a risk is detected in the audit but then it is difficult to eliminate the risk because the time allocated to you do not allow you to do so. The consequence for the audit firm is that it would need to use the insurance in order to cover its mistakes within the audit. Other than this there is a governmental organization, which investigates the audit engagements of auditors and in reference to illegal or bad audit the license of the auditor could be cancelled as well. Aamir also added that apart from this the auditor loses his reputation as well, and the clients feel hesitant to work with such auditors, and in general would have its negative impacts on the brand name of the audit firm as well.

External audit is an external governance mechanism that reviews and evaluates client internal Controls and audits their financial statements in order to prevent material mis-statements (MURYA 2010). Murya further noted that Auditors of higher quality are less willing to accept doubtful accounting methods and are more likely to report errors and irregularities revealed during the audit work. Thus, the external auditor is considered to have an impact on the efficacy of the firm‟s monitoring function, and hence the incidence of fraud detection. Stockholders rely upon the external auditor to provide some assurance that the financial statements of a firm are not misleading. It is crucial that the monitoring provided by this procedure is not impaired. Therefore, in order for the external auditor to provide satisfactory oversight with regard to reducing the incidence of fraud and material mis- statement, two crucial factors affect the functionality of the external auditor, namely, independence and quality.

2.1.4.1 Non-Audit Services Fees and Auditor Independence

The provision of audit fees (AF), non-audit fees (NAF) and auditor independence impacts on the effectiveness which constrains the auditors.

The magnitude of NAF could impair auditor independence as NAS have the following drawbacks that threaten that independence. The first drawback is the self-interest threat. The auditor may become more reliant on the client when considering future revenues from non-audit services to that client (Becker et al. 1998). Thus, auditors may be willing to ignore clients‟ violations and breaches in order to protect their prospective revenues. Research on this issue showed diverse results. However, some previous Studies have documented that auditors are less likely to issue a going-concern modified audit opinion for clients that pay higher NAF (Sharma and Sidhu, 2001; Wines, 1994).

The second drawback is the intimidation threat, represented by the client‟s ability to choose a different auditor in the future. This threat exists in a normal auditor-auditee relationship but it becomes stronger when the auditor can also lose fees from consulting services (Mayhew and Wilkins 2003). Several studies DeAngelo (1981a); Antle (1984); Simunic (1984); Acemoglu and

Gietzmann, (1997) have also argued that NAS may reduce independence if auditors expect future fees and there is a threat to replace them if audit reports are not positive.

A third major drawback of NAF is the self-review threat. Auditors are responsible for evaluating internal control and accounting systems. Thus, auditors are actually evaluating their own work, which can affect their independence. Auditors may be unwilling to criticize the work carried out by their consultancy colleagues, because doing so may lead to the audit firm loosing lucrative consultancy services (Bartlett 1991). Therefore, during the audit, auditors may jeopardies their independence by ignoring errors that may have resulted from advisory services provided by their own firm. A further drawback of providing NAS is the threat of familiarity. Rouckle (1995) argues that the trust established between auditor and client through NAS may lead to excessive trust that, in turn, leads to less testing of the client‟s accounting data.

On the other hand, NAS may provide some additional insights into the firm, which may increase audit efficiency. The audit findings are available to the advisory service, and knowledge spillovers can not only enhance efficiency but also the quality of both audit and consulting services (Peel and O‟Donnell 1995). Thus, the total quasi-rents from auditing and consulting services might be higher than the quasi-rents from auditing

services. Therefore, the auditor‟s independence can be increased if the auditor also provides NAS.

Craswel *et al*. (2002) in USA investigate whether fee dependence within the audit firm‟s offices jeopardizes auditor independence. They argue that if fee dependence affects auditors‟ independent judgment, then auditors are less likely to qualify the accounts. Fee dependence is examined at both national and local office levels in audit firms. They focus on audit fee dependence, and control for the effects of non-audit service fee dependence after the 1989 mergers. They measure the independent judgment in auditing by the tendency to issue qualified audit opinions. Their results show that the level of auditor fee dependence does not affect an auditor‟s tendency to issue qualified audit opinions.

However, Beeler and Hunton (2002) find that audit partners exhibited more biased decision-making in the presence of potential non-audit services, and this creates a perceived lack of auditor independence. They find evidence that the audit fee structure affects the partners‟ evaluation of evidence and their going-concern judgments.

Beck *et al.* (1988) hypothesizes that non-recurring NAS impair audit independence more than recurring NAS but finds no evidence that auditor independence is impaired significantly by NAS. Arrunada (1999a) finds that auditor independence is not impaired by the provision of NAS and, contrarily, it may enhance the auditor‟s independence if he has a diversified clientele. Similarly, DeFond *et al*. (2002) find no evidence that the level of non-audit fees affects auditor reporting decisions or their propensity to issue going-concern audit opinions. The previous author explains in another study, Arrunada (1999a), that an auditor with a large and diversified clientele is collectively dependent on all his clients but more independent of each individual client. He suggested that NAS increase

the auditor specific assets, in another words, increase the auditor‟s size and reputation, which enhances the incentive for the auditor to keep high levels of audit quality as any failure to do so would create large potential losses.

Jenkins and Krawczyk (2002) test a wide range of non-audit services in the USA such as actuarial services, legal services and software training and find a positive relationship between accounting professionals and investors‟ perceptions of auditors‟ independence and objectivity and additional non-audit fees.

In the UK, Lennox (1999) examines the association between audit qualifications and NAS, The result shows a positive but insignificant relation between audit qualifications and NAS, which may support the theoretical argument of the possible impairment of the auditor independence by NAS.

Four Australian studies used data from different periods to investigate the association between the incidence of a going-concern opinion decision and NAF. Barkess and Simnetts (1994) find that NAS fees are not related to the audit opinion decision. Craswell (1999) tests audit opinions and found that NAS fees are found to be not related to the audit opinion decision. On the other hand, the other two studies found that NAF affects auditor independence. Wines (1994) conclude that auditor independence is impaired for clients generating higher levels of NAF.

Sharma and Sidhu (2001) provide evidence of significant positive associations between NAF and the propensity of the auditor to issue a qualified going concern opinion. This result suggests potential independence threats.

In New Zealand, Hay *et al*. (2006) examine the effect of NAF on auditor going concern opinion. Their results show no significant association between audit qualification or

modification and NAF. This result is inconsistent with their expectation that New Zealand‟s small and limited growth market for audit and non-audit services would increase the client pressure on the auditor in order to preserve their client base and fee revenues.

The positive impact was also found in an empirical study in New Zealand by Gul (1989) who finds that bankers had higher confidence in auditors who conduct NAS, such as designing and installing financial and cost accounting systems.

The second stream of research has investigated the effect of the provision of NAS on auditor independence in appearance. These studies argue that, since auditor independence is hard to measure, even if independence is not really affected, independence in appearance is affected and the public may perceive that the auditor‟s independence is impaired, which is more dangerous. These studies are mainly based on surveys and experiments.

External auditors have market pressures and incentives to maintain their integrity and objectivity because they may lose their client base if they lose their reputation. Thus, the economic consequences of reputation loss provide incentives to auditors to sustain and demonstrate a high level of independence. At least, auditors should appear independent to the capital market because independence of mind cannot be observed (Mautz and Sharaf 1961).

Solomon *et al*. (2005) examine the extent to which the perceived credibility of financial statements is a function of the public‟s perception of the auditor‟s independence, using an experimental case on ninety five participants. The results illustrate that participants have less confidence in financial information audited by firms that at the same time provide

significant NAS, suggesting that auditors are perceived to be less independent when they also provide NAS.

In Europe, Quick and Warming-Rasmussen (2009) empirically investigate the impact of NAS on investors‟ perceptions of auditor independence in Germany, considering the recent number of changes to NAS regulations that have occurred in Germany, USA and other countries.Their findings support the negative impact view, which is in line with most of the previous studies of auditor independence in appearance that were performed in Anglo-American countries, particularly the US. The effects of 19 different services were analyzed and they find that shareholders generally perceive a negative effect on auditor‟s independence if NAS are provided. Quick and Warming-Rasmussen (2005) investigate the impact of NAF on perceived auditor independence in Denmark. They find that shareholders, bank loan officers and journalists perceive a negative effect on auditor independence if NAS are provided. Their findings show that the type of NAS influences auditor independence.

Many other studies have documented the same negative association. Firth (1980) finds that there is a perception of auditor independence impairment when the amount of NAF is large in relation to AF. Beck *et al* (1988) also states that the increasing bond between auditors and their clients, due to the provision of NAS, leads to a public perception of impaired auditor independence.

From the above illustrations, it can be observed that the vast majority of empirical studies of auditor independence in mind, as measured by issuing going concerns or qualified reports, failed to find evidence that NAF jeopardizes auditor independence,

while the vast majority of studies of auditor independence in appearance find that NAF impair the auditor independence.

Francis (2006) reviews the NAS research literature over the past 40 years and concludes that even though there is no clear evidence linking the provision of NAS with audit failures, the literature finds that NAS can adversely affect the appearance of auditor independence, and this may be more than just a "mere perception" problem, because there is also evidence that stock prices are significantly lower for companies that pay their auditors large fees for NAS.

Although academic research findings are mixed, many accounting regulators clearly believe that NAF has the potential to impair auditor independence. Following the financial scandals involving Enron, WorldCom, Global Crossing and others, the SEC attributed these to audit failures due to the lack of auditor independence. Consequently, the SEC implemented new auditor independence criteria requiring the disclosure of audit and non-audit service fees and banned the provision of certain non-audit services that are considered as a threat to auditor independence.

2.1.4.2 Industry Specialized Auditor and Quality of fraud detection

Audit research has applied a variety of proxies to measure audit quality. For example, DeAngelo (1981) argues that larger auditors are more independent and, therefore, provide a higher quality of audit through identifying errors, misstatements and frauds. Large audit firms have more concern to protect their reputations and more resources, which enable them to perform better auditing services, compared to small audit firms (Palmrose 1988; Menon and Williams 1991).

Empirically, some researchers, such as Becker *et al*. (1998), Francis *et al*. (1999) and Chia *et al*. (2007) provide evidence for the use of auditor size as a proxy for audit quality. However, Johnson *et al*. (2002) adopt the tenure of auditors with their clients as a proxy for audit quality as auditors who have served their clients for a longer time would know their clients‟ accounting systems and internal controls better. Their results show that short audit tenure of two or three years is associated with lower quality financial reporting. This long-term relationship between auditor and client may actually create aggregated awareness that helps auditors to limit irregularities in financial reporting processes. Mansi *et al*. (2004) suggest that, under the current system of voluntary auditor rotation, audit quality does not appear to deteriorate with longer auditor tenure. Nevertheless, Ghosh and Moon (2005) argue that the tenure of auditors may have a negative impact on audit quality, as auditors who have served their clients for a longer time may surrender their independence to maintain close relationships with their clients.

Other researchers apply the number of audit qualified reports as an indicator of audit quality; some researchers call this measure the unclean auditor opinion. Thus, higher-quality auditors will usually issue more unclean opinions than lower-quality auditors (Craswell, 1988; Francis and Krishnan 1999).

Solomon *et al*. (1999) argue that industry specialist auditors have a deeper knowledge than non-specialist auditors due to greater experience in the industry, and this enables experts to make more accurate audit judgments and thus to conduct higher quality audit work. They find that specialist auditors have more accurate non-error frequency knowledge than non-specialists. Owhoso *et al*. (2002) shows that industry experienced

auditors are better able to detect errors within their industry specialization than outside that industry. Similarly, Maletta and Wright (1996) observe fundamental differences in error characteristics and methods of detection across industries.

In addition, specialized auditors are more likely to invest more in staff recruitment and training, information technology and audit technologies than non-specialist auditors (Dopuch and Simunic 1982).

Additionally, O'Keefe *et al*. (1994) report that specialist auditor‟s exhibit greater compliance with auditing standards than non-specialist auditors. Dunn and Mayhew (2004) find that clients of industry-specialist audit firms are ranked higher in terms of disclosure quality by financial analysts. Carcello and Nagy (2004) find a negative association between audit firm industry specialization and SEC enforcement actions.

Green (2008) compares specialized auditors in manufacturing industry with non-specialized auditors on conducting some audit processes. Both groups conducted analytical procedures tasks within the same industry. The results show that differences were noticeable in later stages; specialized auditors had a more focused and efficient information search as they were more able to detect the correct causes of problems during the task, and identified the correct these causes more often.

The above literature on external auditor factors summarized as. The first part looked at previous studies on the relationship between NAF and auditor independence impairment in both mind and appearance. The first stream of these studies, which examines the relationship between non-audit fees and going concern reports, qualified reports and restatements, show mixed and inconclusive results. The second stream of studies that examine auditor independence in appearance show more convincing results, namely, that

auditor may lose their independence in appearance when providing NAS. However, regulators, such as the SEC, still believe that the provision of non-audit services by the firm that performs the external audit is a major threat to external auditor independence.

The second part reviewed the association between NAF and independence, the majority of the evidence from the US suggests that NAF do not impair auditor independence.

Finally, in terms of the industry specialized auditor, most of the prior research documented the positive impact of a specialized auditor on audit quality. There is scarcity of prior research on the link between specialized auditor and earnings management, and most studies in this regard showed a negative association.

2.2. Emperical Review

This section provides an overview of the previous research on external auditor responsibility and detection of fraud as well as external auditor‟s fraud detection expertise. Thereby focus on the relevant literature that relates to this research objective.

Fraud is an inevitable cost of doing business. Organizations are responding to the pervasiveness of fraud by employing increased fraud risk management strategies (KPMG 2008). The factors examined by studies on the ability to detect the likelihood of fraud can be categorized into several dimensions: fraud risk indicators, auditor‟s roles, audit firm‟s roles, audit firm‟s characteristics, auditor‟s characteristics, auditor‟s ethical status, cognitive factors, personality, and audit task.

The fraud risk indicators dimension includes factors such as quality of internal control (Matsumura and Tucker1992), and client integrity and competence (Bernardi 1994). Moet (1997) treated the variable fraud risk indicators in aggregate by referring to them as

high fraud risk or low fraud risk. In contrast, Krambia-Kapardis (2002) provided subjects with a list of fraud indicators. Meanwhile, the auditor‟s roles dimension includes factors such as awareness of the high risk audit areas and evaluation of management integrity and competence (Krambia-Kapardis 2002). On the other hand, audit firm‟s role dimension includes providing incentives to probe fraud, ensuring that there is no pressure to complete the audit, and ensuring that management has not restricted the scope of the work (Krambia-Kapardis 2002). Audit firm‟s characteristics dimension includes size (Moyes and Hasan, 1996; Owusu-Ansah, 2002), peer review, prior success in detecting fraud (Moyes and Hasan 1996), and practice review experience of auditor‟s firm (Owusu-Ansah 2002). Furthermore, auditor‟s characteristics dimension includes experience (e.g. Pincus 1984, Moyes and Hasan 1996), ability, motivation, prior probabilities about the existence of fraud (Pincus 1984), auditor‟s penalty and audit fee (Matsumura and Tucker 1997), CPA qualification, types of auditor (Moyes and Hasan 1996), and tenure of auditor (Owusu-Ansah et al. 2002). In addition, auditor‟s ethical status dimension includes moral development (Bernardi 1994). Cognitive factors dimension tests factors such as standard representations and multiple representations (Johnson et al 1995), and perceptual readiness (Moet 1997).

Meanwhile, the personality dimensions includes category width (Pincus 1984), field dependence/independence (Pincus 1984; Bernardi 1994), locus of control (Bernardi 1994), and ambiguity tolerance/intolerance (Pincus 1984; Zimbelman and Waller 1999). Finally, the audit task dimension includes audit plan (Matsumura & Tucker 1992; Moyes and Hasan, 1996; Braun 2000), and risk assessment (Waller, 1993; Krambia-Kapardis 2002).

Pincus(1984), Bernardi (1994), Moyes and Hasan (1996), Owusu-Ansah et al. (2002) and Carpenter et al.(2002) are in agreement that the auditor‟s experience is a significant factor that may affect the ability to detect the likelihood of fraud. Krambia-Kapardis (2002) develops a model called “Eclectic Fraud Detection” model (EFD) which aims to enhance the auditor‟s fraud detection ability. According to Krambia-Kapardis (2002), a basic premise of the EFD model is that fraud detection is preceded by a pattern-recognition/fraud risk-assessment decision-making process. In order to adopt the EFD model, rationalizations, opportunity and crime-prone personality (ROP) risk assessment model must be utilized. This fraud risk assessment model, however, is more or less resembled a prediction model when the subjects were actually required to indicate from the list provided, fraud risk indicators that were related to the fraud incidences that they had experienced. As a result this study may have recall and maturation problems because respondents are required to recall those fraud incidences that they had experienced. In addition, Arkes, et al. (1986); Boatsman and Moeckeland (1997); Sutton et al. (1994) have provided evidence that auditors are actually reluctant to use decision model in assessing fraud risk.

Based on the discussion above, the present study notes that there need be a requirement for the auditor to actually perform the fraud risk assessment task. There need be to conduct research to understand the potential factors influencing external auditors‟ ability to detect fraud. Consequently, the inability of the external auditor to detect the likelihood of fraud resolved.

In the light of the studies discussed so far, this paper seeks to expand the literature by providing evidences on the fraud detection ability of the external auditors in Ethiopia.

Particularly, this paper would be focusing on the audit task dimension, specifically fraud risk assessment. Notwithstanding the importance of the other dimensions, the focus is given to this dimension because IAS 240 stated that fraud risk assessment is one of the tasks that external auditors should perform during the conduct of the audit. As noted by IA 300 and IA 400, the inherent and control risk assessment is among the factors that should be considered by the auditor to enable the auditor to design appropriate audit procedures. In general, an audit plan should be tailored accordingly based on the assessed fraud risk (Konrath 1989; Kanter, McEnroe and Kyes, 1990; Morton and Felix 1991; Byrne 1991; Sittenfeld 1991; Waller 1993; MIA 19977; Mock and Wright 1999). When consideration is given to the risk factors during risk assessment, this will influence the effectiveness and/or the efficiency of the audit plan (Zimbelman 1996). The above discussion gives insight concerning the importance of the fraud detection issue. With that, the present study takes an attempt to examine the external auditors‟ ability to assess fraud risk.

Moreover, this study addresses the pervasive risk of fraud by investigating external auditor‟s expert performance in fraud detection and their responsibilities. An earlier study by Mui (2009) identified the determinants of the individual auditor‟s fraud detection capabilities. These determinants were captured in the model of auditor expert performance in fraud detection. Mui (2010) developed new scales of measurement for each of these determinants. This current study employed likert scale measurement unlike Mui model is OLS as their independent variable uses continuous measurement.

In the literature, fraud detection was considered to be an unstructured task with an impoverished learning environment (Libby and Luft 1993; Libby and Tan 1994).

Libby and Tan (1994) assessed the relationship between experience, knowledge, and ability with expert performance in other audit tasks. In their assessment of these relationships in the context of unstructured audit tasks with impoverished learning environments (i.e. ratio analysis and earnings manipulation), Libby and Tan (1994) reported significant relationships between these determinants and expert performance. Their results supported Bonner and Lewis‟s (1990) proposition that knowledge and problem-solving ability were the major determinants of auditor expertise in these audit tasks. The Mui (2009) study extended the Bonner and Lewis (1990) and the Libby and Tan (1994) studies by applying the determinants of auditor expert performance to the fraud detection task.

The determinants of auditor expert performance in fraud detection are theorized in the model of auditor expert performance in fraud detection proposed by Mui (2009).this model comprises(1) the determinants of auditor expert performance in audit tasks other than fraud detection established in literature(Bédard and Chi 1993; Bonner and Lewis 1990; Libby and Luft 1993; Moyes and Anandarajan 2002; Moyes and Hasan 1996; Shanteau 1992; Shanteau, Weiss, Thomas, and Pounds 2002; Tan and Libby 1997); and (2) the determinants unique to the fraud detection task identifies in an interview study by(Mui 2009). Mui (2009) in the interview study established that the determinants of auditor expertise for audit tasks other than fraud detection that were established in the above mentioned literature namely, certification, continuous learning, practical experience, analytical reasoning, data analysis skills, communication skills are also applicable to the fraud detection task. Further, the fraud detection task requires the auditor to possess unique capabilities in addition to the determinants established in the

literature namely, mentoring technical skills, and the ability to work within a team (Mui 2009). In addition to these determinants that are inherent to the individual auditor, the Mui (2009) study also identified that the ethical or unethical atmosphere in the organization in which the auditor performs audit work impacts on the auditors‟ fraud detection capabilities.

These determinants can be categorized as knowledge, problem solving ability, interpersonal skills, and external factors. The knowledge category refers to strategies auditors can adopt to develop their knowledge of fraud and fraud detection. The determinants in the knowledge category comprise practical on the job experience, mentoring, certification, and continuous learning. Abdolmohammadi et al.(2004) established that possessing current knowledge is the principal attribute of top industry audit specialsist.in the context of fraud detection, the question in relation to possessing current knowledge is „how can the auditor learn about the fraud detection?‟. Bonner and Lewis (1990) established that knowledge about audit tasks can be established through direct experience and indirect experience with the audit task.in the context of auditor expertise. Technical knowledge of audit tasks can refer to learning processes, i.e. how the auditor learns about the audit task. The individual auditor can develop their technical knowledge of the fraud detection task directly through practical experience and mentoring and indirectly through certification and continuous learning.

Standards such as IPPF attribute standard 1210 specify the extent of information technology skills that an internal auditor should possess. Specifically, this standard requires auditors to have sufficient knowledge of „key information technology risks and controls and available technology-based audit techniques to perform their audit work‟.

However, this standard does not require auditors to have the level of expertise of an information technology auditor. Further, practitioners have found that few individuals possess a combination of specialized information technology skills and auditing skills (Mui 2009). Interpersonal skills – specifically, the ability to communicate and the ability to work within a team - are the third category of determinants in the model of auditor expert performance in fraud detection. Good communication skills foster openness in contrast to fraud fostering concealment (Hooks et al 1994). IPPF practice advisory 1210 *Proficiency* requires auditors to be skilled in „dealing with people, understanding human relations, and maintaining satisfactory relationships with engagement clients". In addition, auditors are required to possess oral and written communication skills to communicate clearly and effectively.

A complementary determinant is the ability to work within a team. Teamwork in the context of fraud detection is audit team brainstorming. Fraud in a financial statement requires external auditors to brainstorm about the possibilities of audit in every audit (AICPA, 2002). The ASA 240 the auditors" responsibility to consider fraud in an audit of financial report equivalent of the SAS no.99 audit team brain storming session is the discussion among the engagement team about fraud risk (ASA 240 paragraph 30).audit team brainstorming for fraud risk assessment generates more quality ideas compared with those generated by individual auditors. Further, audit teams are able to eliminate poor quality ideas (carpenter 2007).

The Mui (2009) study defined auditor expert performance in fraud detection as the auditor"s success in detecting fraud. This definition captures the elements of the Frensch and Sternberg (1989) definition of expertise by reflecting: (1) the actual demonstration of

an auditor‟s ability to detect fraud (i.e. the realization of the auditor‟s ability to detect fraud); (2) the achievement of quality by the auditor in identifying red flags and making judgments about whether fraud had been perpetrated; and (3) that the domain is fraud detection. This success is reflected in the expert auditor‟s ability to: (1) detects fraud; (2) identify potential irregularities in data; (3) conduct further investigation of the irregularities that were identified; (4) determine 10 Whether further investigation of an irregularity is required; and (5) determine if fraud has occurred.

2.3 Conclusions and knowledge gaps

Even though, the aforementioned, empirical reviews try to point to out their finding as per their study area , it doesn‟t necessarily mean that the finding of their country necessarily applies for another country , this is because each nations have their own culture, economic background, political environment and other considerations that needs to be taken in to account. When we see the studies conducted in Ethiopia, some research tries to see from the perspective of auditors legal and professional liabilities that lacks to touch the fraud detection and prevention ability aspect of auditors while others only from independence perspective. With that, the present study takes an attempt to examine the external auditors‟ ability to assess fraud risk.

Chapter 3: Research design and methods

This chapter describes the methodology used in order to conduct the study. The purpose of this chapter is to present the research question and hypotheses, the underlying principles of research methodology and the choice of the appropriate research method for the thesis. The chapter is organized as follows. The first section 3.1 presents the research hypotheses and question along with the broad research objective. Section 3.2 discusses the research approaches while section 3.3 presents the method adopted in the study and section 3.4 finally presents data analysis methods.

3.1. Hypotheses development and research questions

According to Frank (1979) a hypothesis is the tentative statement of fact that is yet to be verified by the researcher. In this study in order to address the factors that could explain auditor‟s expert performance to fraud detection one dependent variable against five independent variables would be investigated in line with the broad purpose statement of responsibilities of external auditors in fraud detection in the context of Ethiopia. Variables examined and their measurements are formulated from the existing literature (Mui (2010), Prawitt, Smith and Wood (2009)) with some adjustments to suit this study.

The dependent variable is auditors expert performance to fraud detection, while the independent variables are auditor certification, training (continues learning), practical experience, audit fee size, and independence. Hence, subsection 3.1.1 presents the dependent variable. Then the independent variables selected with related hypothesis are presented in subsection 3.1.2. Finally measurements of variables and regression model presented in subsection 3.1.3

3.1.1 Dependent Variable

In this study the dependent variable is the auditor‟s expert performance to fraud detection as explained below.

3.1.1.1. Auditors expert performance to fraud detection

At the individual level, the auditor is required to possess the knowledge, skills, and other competencies to perform their individual responsibilities. The more competent the auditors, the more likely they are to understand the factors leading to and the indicators of management bias in accounting accruals and how it can be moderated. In addition, these requirements have the potential to increase expectations on the audit profession to prevent and detect the threat of fraud.

The fraud detection task requires key, unique capabilities because fraud has an inherent element of deception and concealment by fraud perpetrators. This uniqueness of the fraud detection task impacted on the composition of auditors‟ fraud detection capabilities and subsequently, the composition and definition of auditor expert performance in fraud detection. Auditor expert performance in fraud detection provides the audit profession, organizations, and the individual auditor with an understanding of the factors that impact on the auditor‟s fraud detection capabilities. And therefore, contribute to auditing practice and the audit profession through the identification of strategies to educate the audit profession about fraud detection (Bonner and Lewis‟ 1990, Prawitt, Smith and Wood 2009 and Yanchi Mui 2010).

3.1.2. Independent Variables

In this study, the specific components to create Auditors expert performance to fraud detection measure include the average experience of the external auditors, the percentage of external auditors that are professionally certified, the size of the audit fee, and the amount of training during the year , and the independence of auditors in financial statement audit as explained below.

Certification

Certification is the percentage of external auditors in the external audit function who have the CPA certification. The purpose of certification is to establish a reliable, standardizing testing instrument that adequately assess the levels of specialized competency necessary to practice proper financial statement examination (Rezaee and burton 1992).

The formation of the following hypothesis has become necessary in order to ascertain the possibility of auditor‟s certification having an influence in their fraud detection capabilities.

H1: There is a significant positive relationship between auditor's certification and auditors' fraud detection capabilities.

Training

Among the factors noted to be influencing the auditor‟s capabilities to detect fraud, availability of continuous training of auditors is singled out as very cogent (Nystrom 1997). Auditors should have a complete foundation in audit training like computers and other information technology. They need to have the ability to realize the opportunities computers render to possible perpetrators of fraud as well as an ability to use computers in analysis and documentation of alleged fraud (Bologna et al.1993). an auditor to be

effective as expert witness, he or she should have good communication skills, able to think logically while under pressure, and should have able trained to exhibit financial data in financial statements for improved fraud detection and deterrence though educational seminars and others means , including establishing qualification for the auditor, assisting parties who wish to retain the services of auditors, maintain the competency of auditor through continuing professional education (Nystrom 1997) . It is in this regard the following is hypothesized in this study.

H2: There is a significant positive relationship between auditors continues training and auditors' fraud detection capabilities.

Experience

Other strategies would suggest that the auditor should be composed of a particular and extensive experience which increases in accountability and reporting demands on fraud detection by the auditors themselves (Knapp, 2000). Audit experience is related to how long the auditor works and to how many audit engagements have been finished (suyono 2012). According to Nystrom (1997), experienced auditor able to identify accounting problem areas, rank these problem areas or topics as necessary, and properly clarify the focal point of investigation or refocuses the investigation as new information is acquired and evaluated. The importance of experience can be demonstrated when the experienced auditor, having knowledge of many different types of fraud based on first hand examination experience, obtains a more effective plan of examination. The more fraud base the experienced auditor has been involved in, the broader his knowledge base (Bologna et al.1993).

Coklin (1993) found that someone with more experience in a specific field had more ability in developing specific cases related to his/her experience and Technically, the audit expertise will increase with more experience in doing audit tasks. More experience will give more audit quality, particularly in making audit judgments.

It is in this regard that the next hypothesis is formulated.

H3: There is a significant positive relationship between auditors experience and auditors' fraud detection capabilities

Audit fee size

The audit activity must have sufficient funding relative to the size of its audit responsibilities. This important element should not be left under the control of the organization under audit because the budget impacts the audit activity"s capacity to carry out its duties (Belay 2007). According to Johnson (1998), examining the relationship between audit fees and auditors effort in detecting fraud is likely to aid the understanding of quality and independence of auditor, and also provide a better insight into the market of audit services. In a competitive market for audit services it is reasonable to argue that when an auditor charges a premium fee to a client this will be associated with a better quality of assurance services provided. That might be related to the ability of the auditor to be in a stronger position to negotiate audit fees with clients (Palmrose 1989). It is in this regard the following is hypothesized in this study.

H4: There is a significant positive relationship between audit fee size and auditors' fraud detection capabilities

Independence

An independent audit provides a necessary external check on the integrity of financial statements. Auditor‟s independence is important in the context of audit quality because the independent audit is critical to the credibility and integrity of financial statements. A lack of independence impairs an auditor‟s ability to exercise objective audit judgments and affects confidence in the audit process (Treasury 2010).

Alim (2007) found empirical evidence that auditor‟s independence had a significant effect on audit quality. Without audit service by an independent party, the reliability of financial statements could not be assured. Burger (1990) considers independence to be a crucial concept that sets auditors a part from the accountancy profession, as their core mission is to certify the public reports that describe companies‟ financial status- an exclusive function performed by auditors for society. (Burger,

Therefore, in this regard, the next hypothesis is formulated to see the relations of auditor independence as a factor for the fraud detection capabilities

H5: There is a significant positive relationship between auditor independence and auditors' fraud detection capabilities

3.2 Research approaches

As per Creswell (2003) there are three approaches that are used in conducting a given research. These are quantitative, qualitative and mixed research approach. Quantitative research is a means for testing objective theories by examining the relationship among variables (Creswell 2009). On the other hand, qualitative research approach is a means for exploring and understanding the meaning individuals or groups ascribe to a social or human problem with intent of developing a theory or pattern inductively (Creswell 2009).

Finally, mixed methods approach is an approach in which the researchers emphasize the research problem and use all approaches available to understand the problem (Creswell 2003).

Hence, based on the above discussions of the three research approaches and by considering the research problem and objective, in this study, researcher used mixed research approach; the rationale for combining both quantitative and qualitative data is to better understand a research problem by combining both numeric values from quantitative research and the detail of qualitative research and to neutralize limitations of applying any of a single approach.

As noted in Greene et al. (1989, p. 259 cited in Yesegat 2009, pp.75-76) adopting a mixed methods approach has a number of benefits. The first benefit is triangulation pertaining to a situation where researchers seek convergence, corroboration, correspondence of results from quantitative and qualitative methods to increase validity of constructs and inquiry results. Secondly, by mixing methods complementarily, researchers seek elaboration, enhancement, illustration, clarification of the results from one method with the results from the other method. Thirdly, by mixing methods with developmental intent, researchers seek to use the results from one method to help develop or inform the other method. Fourthly, mixing methods with initiation intent seeks the discovery of paradox and contradiction, new interpretations, the recasting of questions or results from one method with questions or results from the other method. Finally, to increase the scope of inquiry mixed method with expansion intent seeks to extend the breadth and range of inquiry by using different methods for different inquiry components.

To see the auditor‟s responsibility and fraud detection in Ethiopia the concurrent mixed method design used. The concurrent triangulation approach is probably the most familiar of the major mixed method models. It is selected as the model, when a research uses two different methods in an attempt to confirm, cross-validate, or corroborate findings within a single study (Creswell 2009). In this case, the quantitative and qualitative data collection is concurrent, happening in one phase of the research.

The following section hence presents the methods adopted in the study.

3.3 Methods adopted

As far as the researcher wants to both generalize the findings to a population and to conduct an in-depth investigation, the current study adopted mixed methods approach. Mixed method approach focuses on collecting, analyzing and mixing both quantitative and qualitative data in a single study or series of studies. The decisive argument here is that the use of both quantitative and qualitative approaches in combination provides a better understanding of research problems than either approach achieves alone. Mixed method research involves both collecting and analyzing quantitative and qualitative data either sequentially or concurrently. Hence, the following sections present consecutively the quantitative and qualitative aspects of the research method.

3.3.1 Research method: quantitative aspect

Quantitative data is a systematic record that consists of numbers constructed by researcher utilizing the process of measurement and imposing structure (Kent, 2007). The quantitative research approach employ measurement that can be quantifiable while qualitative cannot be measured (Bryman & Bell 2007). This study use a survey design due to its merit of economy and enables to gather enough information.

3.3.1.1. Survey Design

This study has intent to assess the auditor‟s responsibility in fraud detection in Ethiopia with respect to private audit firms. To do this, the methods that employed are survey design. Survey research according to Fowler (1993) is a means of gathering information, usually through self-report using questionnaires or interviews. Its purpose is to generalize from a sample to a population so that inferences can be made and it is also economical and rapid turnaround in data collection (Creswell 2003). This survey conducted by means of self-administered questionnaire which would be distributed to the authorized external auditing firm auditors. Questionnaire is a common place instrument for observing data beyond the physical reach of the observer (Leedy 1989). Questionnaires distributed to auditors of the selected audit firms. Auditors are appropriate because they deemed to be knowledgeable about fraud and fraud detection and could provide important perspective on its responsibility.

The response help to understand the factors that could explain the auditor‟s fraud detection capabilities and responsibilities, their level of exercising professional responsibilities and constraints exist in attempting to exercise their responsibility. The research evidence was gathered by using both close-ended and open-ended questionnaires. Mixed questionnaires have many merits; the most important of this advantage is its considerable flexibility (McNabb 2005). The questionnaires were structured based on those used by (Prawitt et al. 2009, and Mui 2010).With regard to the close- ended questions, the respondents were asked to indicate their level of agreement on a five point Likert scale with the following ratings. Strongly agree (SA; or 5), agree (A; or 4), neutral (N; or 3), disagree (D; or 2), and strongly disagree (SD; or 1).

On this scale a score of 5 or 4 indicates that the item is perceived to be essential while a score of 3 or 2 indicates that the item is perceived to be fairly important, but not essential, while a score of 1 indicates that the item could be disregarded for being unimportant. Similar scales have been used by Yanchi Mui (2010) and Prawitt et al. (2009) were found suitable. With respect to the open ended questionnaires the respondents were asked to provide open ended responses to the questions that require opinion and if they have opinions they feel the researcher would find useful.

3.3.1.2 Sample Selection

The population considered in this study is the number of private audit firms in Addis Ababa and the researcher used multiple stage sampling first audit firms would be selected and then auditors and other people in the audit firms like audit firm managers. According to Agresti and Finlay (2008), Multi-stage sampling represents form of cluster sampling in which larger clusters are further subdivided into smaller, more targeted groupings for the purposes of surveying. According to the office of federal auditor general of Ethiopia as of March, 2014, the total numbers of private audit firms authorized by office of federal auditor general of Ethiopia in Addis Ababa are 71. According to Cohen et al. (2005), covering the entire companies in the study makes the study difficult. Therefore, out of the total number of private audit firms in Addis Ababa, the researcher decided to draw 15 sample audit firms of the whole population for investigation. The rationale behind to select only 15 audit firms are taking in to account the previous research studies and judgments, for example research conducted by Muluneh (2009), the available resources, time, and budget. The researcher draws five audit firms from each of the three level (grade A, B, &C) equally which is a total of fifteen based on their number of employees

which are more than ten and their audit experience. Given audit firms which have more than ten auditors they are relatively large in size which means they do have the opportunity to deal with different sectors (clients) which gives them a terrific experience for many audit related problems. This is invaluable for the main intent of the paper. The proportion of the total audit firms to the sample selected was not equal size. According to Mui (2010) study on external auditor‟s expert performance, auditors and audit firms provide the same professional service despite their legal classification. Hence, the equal selection of audit firms from different category despite their variation in proportion does not have a significant impact for this study. To get the advantage of equal no of respondents the researcher drawn, ten auditors from each selected audit firms (from each of grade A, B, &C Firms). The rationale behind to select ten auditors is that to allot equal number of respondents from each representative firm that gives a total of one hundred fifty observations that is convenient for the researcher and the main intent of the study. Hence, to select auditors the researcher used stratified random sampling. In random sampling each individual in the population has an equal probability of being selected which is important for the external validity of the study (Creswell 2009). Since the aim of the study is to make theoretical inferences from the results of the study that are suitable for further empirical investigation in any other context, this random sampling is the most appropriate method.

3.3.2. Research method: qualitative aspect

In addition to the quantitative approach the study used qualitative approach more specifically in depth interview in unstructured face to face interview form and document reviews. Unstructured in depth interview with external audit firm managers and directors

of selected audit firm would be conducted. It allows the investigator some degree of flexibility at the time of interviewing for the pursuit of unexpected line of inquiry which will arise at the study progresses. Questions in the interview checklist were constructed based on the review of literature.

In the process of preparing, testing and using the instruments, the following procedures were followed. The questionnaires and the interview guides developed based on literature review relevant to the issue and the specific objectives, both tools would be judged for their validity using professionals in the area and in the final study, the questionnaires and interview administered by the researcher. Besides, the review of documents helped the researcher to understand the key facts of the auditors. A review of relevant documents-audit plans, audit programs, working papers, audit reports and audit manuals, all serve as a means of generating secondary data to support the questionnaire and interview.

The interview and document examination used to corroborate the patterns that evolved from the data collected via questionnaires and interviews, so that the validity of the findings could be enhanced.

3.4. Data Analysis Methods

As explained in the preceding part, the research is designed to follow a mixed method. To this end, both qualitative and quantitative analyses were used. Data collected using questionnaire analyzed through descriptive statistics, frequency distribution, correlation and logit Regression using Statistical Package for the Social Scientists (SPSS). It helps to describe what the data look like, where there center (mean) is, how broadly they are spread in terms of one aspect to the other aspect of the same data (Leedy 1989). The SPSS is used to find out percentages, mean values, frequencies, and correlations as main

means for summarizing the data. Data collected from the interview and reviews of documents are interpreted qualitatively. In analyzing the data from interviews, narrative approaches including quotations from respondents would be used.

3.4.1 Measurement of Variables and the Regression Model

As it is already mentioned above the dependent variable in this study is auditor‟s expert performance to fraud detection. Auditors expert performance to fraud detection is measured with the scales developed using the five-point Likert Scale of "1-Strongly Disagree", "2-Disagree", "3-Neutral", "4-Agree" and "5-Stronly Agree". As per the hitherto existing literature, it is possible to measure these variables by primary data Questionnaire. This measure is expected to bring a reliable result after the collection of the data and its analysis.

The regression model below reveals that there is a relationship between one dependent variable (auditors expert performance to fraud detection) against five independent variables (certification, experience, training, audit fee, and independence) and therefore, Logit regression model used for the study which was used by Mui (2010) with little modification by including variable, audit fee size and independence. Since my dependant variable which is auditors expert performance in fraud detection is limited dependant variable which is measured by five point likert scale, logit regression model were used for the study.

The general model to be estimated is the following forms:

$$\text{Prob(event)} = \frac{\text{Exp}\{\beta 0+\beta 1X1+\cdots+\beta nXn\}}{1+\text{Exp}\{\beta 0+\beta 1X1+\cdots+\beta nXn\}} \ldots\ldots\ldots\ldots \text{Equation 1}$$

Where Xi to Xn are explanatory variables that allowed to influence the probability of a positive response which is assumed to be the same for all items in the group, irrespective of the positive responses or the negative responses of the other items in that or any other group. Similarly, the probability of a negative response is defined as 1-p, for all items in the group (Anderson 1997). Therefore, the following model would be used in estimating the parameters for the variables in this study:

The full regression model for the empirical investigation in estimating factors that might explain the external auditor"s expert performance in fraud detection is given as:

$AEPFD_i = \beta 0+ \beta 1CRi+ \beta 2\ TRi+ \beta 3ERi+ + \beta 4ASi+ \beta 5INi+ e$

Where: AEPFDi =auditors expert performance to fraud detection

β0 = value of AEPFDi if β1, β2, β3, β4, β5 =0

β1, β2, β3, β4, β5= coefficients of regression

CRi = certification

TRi =training

ERi= practical experience

ASi =audit fee size

INi =independence

e =error term

Chapter 4: Results and Discussion

This chapter explains and discusses the results of findings based on the analysis done on the data collected. The results of the study are discussed by triangulating the different source results: questionnaire results, interview and document review results. The discussion attempts to accomplish the objectives of the study, answer the research questions and test the hypotheses.

A total of 150 questionnaires which dealt with the Auditor responsibility and fraud detection were distributed to a sample of private audit firms. However, only 125 questionnaires were collected out of which 120 questionnaires had usable responses (80% response rate). Considering the difficulty of collecting data in developing countries such as Ethiopia, 80 % response rate was reasonably good. All the survey respondents were located in Addis Ababa.

As indicated in the previous chapter, survey was the main strategy of inquiry adopted to investigate the Auditor responsibility and fraud detection: in Ethiopian private audit firms. To this end, the results obtained from the survey are analyzed through descriptive statistics, frequency distribution, correlation and logistic regressions. Descriptive measures of the questions response, the results of correlation and regression model, and interview and document source results are presented in the subsequent sections. Therefore, the chapter is organized into three sections. The first section 4.1 presents research questions and hypotheses as presented in the previous chapter. This is followed by the results of descriptive statistics and descriptive measures of the questions response, frequency distribution, correlation results and regression model, and interview and document sources in section 4.2. Finally, Section 4.3 discusses the results of the study.

4.1. Research Questions and Hypotheses

As stated in chapter one the broad objective of this study is to examine the roles and responsibilities of external auditors in fraud detection in Ethiopia and also to investigate the factors that influence external auditors' responsibility and expert performance in detecting fraud. So as to achieve this broad objective the following three specific research questions and five hypotheses were formulated:

RQ1. *To what extent do private external auditors exercise their professional responsibilities?*

RQ2. *What are the roles of external auditors in detection and prevention of fraud?*

RQ3. *What constraints exist on private auditors in attempting to exercise their professional responsibilities?*

To achieve the objective of this study, in addition to the research questions presented above the following hypotheses concerning the auditor‟s expert performance to fraud detection task were formulated.

H1: *There is a significant positive relationship between auditor certification and auditors' fraud detection capabilities.*

H2: *There is a significant positive relationship between training and auditors' fraud detection capabilities.*

H3: *There is a significant positive relationship between practical experience and auditors' fraud detection capabilities.*

H4: There is a significant positive relationship between audit fee size and auditors' fraud detection capabilities.

H5: There is a significant positive relationship between independence and auditors' fraud detection capabilities.

4.2. Survey Results

The purpose of this section is to present the results of data obtained from different methods involved in this study.

4.2.1 Roles and responsibilities of auditor in fraud detection

Under this sub section, the auditor‟s role, professional responsibilities and legal liabilities has been presented as follows.

Table 4.1 Descriptive Statistics of the role and responsibilities of auditor in fraud detection

Items	Strongly Disagree		Disagree		Neutral		Agree		Strongly Agree		Mean	*Std. Dev*
	No	%	No	%	No	%	No	%	No	%		
Is it the auditor's responsibility include searching or detecting accounting fraud?	14	11.3	19	15.3	4	3.2	49	39.5	34	27.4	3.58	1.357
Do you think that auditing standards may make auditors have the responsibility to detect and prevent accounting fraud?	11	8.9	16	12.9	5	4	62	50	26	21	3.63	1.223
Do Private auditors are legally liable for subsequently discovery of misstated audited financial statements?	12	9.7	23	18.5	16	12.9	34	27.4	35	28.2	3.47	1.353

Do you feel that it is the responsibility of the auditor to uncover fraud and to report this to the appropriate authorities?	16	12.9	25	20.2	14	11.3	30	24.2	35	28.2	3.36	1.431
Do you think that auditor should assess management characteristics, to determine if they may lead to fraudulent financial reporting?	5	4	11	8.9	18	14.5	53	42.7	33	26.6	3.82	1.069
Auditor is responsible if the company goes bankrupt due to fraud	44	35.5	23	18.5	26	21.0	18	14.5	9	7.3	2.38	1.316
Auditors are liable for losses of interested parties if failed to disclose potential fraud in audit report	14	11.3	23	18.5	21	16.9	39	31.5	23	18.5	3.28	1.298
The extent of assurance given by the auditors is clearly indicated in the audit report	2	1.6	4	3.2	4	3.2	53	42.7	57	46.0	4.32	.832
Do you consider that there should be an audit standard that would make auditors responsible for detecting and reporting frauds?	12	9.7	14	11.3	11	8.9	41	33.1	42	33.9	3.73	1.322
The auditor's responsibility in relation to fraud should be clearly indicated in the audit report	5	4.0	12	9.7	12	29.7	39	31.5	52	41.9	4.01	1.149

Std. Dev- standard deviation

Source: Survey results

The survey result of respondents under table 4.1 reveals that most respondents agree on all items of questions with a mean of above 3 and standard deviations of almost nearer to 1 which shows respondents perception with regard to the questions are similar.

Table 4.1 shows that 39.5% and 27.4% of the respondents respectively agreed and strongly agreed that the responsibility of the auditor is to prevent fraud and errors. Some of the respondents, 11.3%, strongly disagree with the above statement, and 15.3% disagree with it.

The proportions are maintained also in the case of the other questions. The result is against international standards on audit. The findings show an expectation gap between the respondents and the statutory requirements with respect to fraud detection and reporting.

4.2.2 Extent of fraud

In this section, the questionnaire results related to the extent of fraud are presented

Two questions were distributed to assess existence and extent of fraud of fraud in Ethiopia and its impact on users. The mean response of the two questions under extent of fraud to users and companies were more than 3.00 and the standard deviation were also close to 1.00, which indicates that the respondents perception were close to one another.

Table 4.2. Descriptive statistics on extent of fraud

Items	Strongly Disagree		Disagree		Neutral		Agree		Strongly Agree		mean	*Std. Dev*
	No	%	No	%	No	%	No	%	No	%		
Do you think that frauds are a major concern in company?	9	7.3	19	15.3	32	25.8	41	33.1	19	15.3	3.35	1.150
Do you think that the discovery of fraudulent activity would have a negative impact on users?	21	16.9	19	15.3	16	12.9	48	38.7	16	12.9	3.16	1.335

Std. Dev- standard deviation

Source: survey results

The results in Table 4.2 show that 33.1% of the respondents agreed and 15.3% strongly agreed that fraud is a major concern for the company and has a great impact. However, 25.8% have a neutral opinion, while 15.3% disagreed and 7.3% strongly disagreed with

this statement. Overall, the results of this section with 48.4% of the respondents show that fraud should be a concern for the company.

When respondents were asked whether the discovery of fraudulent activity would have a negative impact on users, 12.9% strongly agreed and 38.7% agreed to this statement. Such responses reflect the reliability of financial information provided to investors, owners, creditors and other users would affect the entity.

4.2.3 Constraints exist on external auditors in attempt to exercise their responsibility

As determined from the survey questionnaire and interview result, auditors are subject to different constraints: Table 4.3 reveals descriptive statistics of constraints exist on external auditors in attempt to exercise their responsibility.

Table 4.3. Descriptive statistics of constraints exist on external auditors in attempt to exercise their responsibility

Items	Strongly Disagree		Disagree		Neutral		Agree		Strongly Agree		mean	*Std. Dev*
	No	%	No	%	No	%	No	%	No	%		
Clients demand unqualified opinion	14	11.3	11	8.9	9	7.3	53	42.7	33	26.6	3.67	1.292
clients Low demand for audit service	7	5.6	19	15.3	28	22.6	44	35.5	22	17.7	3.46	1.137
absence of strong professional association for auditors	12	9.7	9	7.3	11	8.9	46	37.1	42	33.9	3.81	1.272
family/friend/personal relationship based client selection by audit firm	14	11.3	16	12.9	16	12.9	39	31.5	35	28.2	3.54	1.347

Lack of nationally organized professional body	5	4.0	16	12.9	23	18.5	34	27.4	42	33.9	3.77	1.186
lack of real information presentation for auditing	9	7.3	9	7.3	16	12.9	60	48.4	26	21.0	3.71	1.118
lack of clients regular demand for audit service	7	5.6	9	7.3	21	16.9	64	51.6	19	15.3	3.66	1.025
Pressure from Clients to complete their work	4	3.2	19	15.3	11	8.9	62	50	24	19.4	3.69	1.067
Failure to brainstorm potential fraud schemes	9	7.3	12	9.7	28	22.6	56	45.2	15	12.1	3.47	1.076
Lack of cooperation from internal Auditors	5	4.0	14	11.3	37	29.8	46	37.1	18	14.5	3.48	1.021
Delay in preparation of financial statement	5	4.0	11	8.9	18	14.5	53	42.7	33	26.6	3.82	1.069
Fear of losing client	16	12.9	23	18.5	14	11.3	44	35.5	23	18.5	3.29	1.337
Unsatisfactory explanations to enquiries	2	1.6	12	9.7	18	14.5	64	51.6	24	19.4	3.80	.931
Missing vouchers and source documents	4	3.2	12	9.7	25	20.2	62	50.0	17	13.7	3.63	.961
Misconception on the work of the External Auditors	4	3.2	9	7.3	16	12.9	69	55.6	22	17.7	3.80	.940
Ability to pay Audit fees	16	12.9	16	12.9	42	33.9	39	31.5	7	5.6	3.04	1.111
Poor record keeping of client"s transaction.	2	1.6	4	3.2	19	15.3	58	46.8	37	29.	4.03	.869
Lapses in the implementation of internal controls	5	4.0	4	3.2	16	12.9	67	54.0	28	22.6	3.91	.935

Std. Dev- standard deviation Source: Survey results

As shown in table 4.3 above 17 questions were distributed to assess the constraints exist on external auditors in attempt to exercise their responsibility.

All questions had a mean response of more than 3.00. Standard deviations of some questions were more than 1.00. This indicates that the respondents perception were far away from one another.

As it was indicted on table 4.3 almost all of the respondents agreed that the following constraints as the main challenges external auditors in attempt to exercise their responsibility like absence of strong professional association for auditors, family/friend/personal relationship based client selection by audit firm, lack of nationally organized professional body, lack of real information presentation for auditing, fear of losing client, unsatisfactory explanations to enquiries, ability to pay audit fees, poor record keeping of client‟s transaction. Besides some interviewees, indicated that, lack nationally organized professional accounting and auditing body in Ethiopia and which is weak, absence of clear interpretation of tax low /proclamation and absence of well documented information on change implementation by tax authority, collision of participants to realize fraud, impossible to made audit standard to make auditors responsible for detecting and reporting fraud are a major constraint.

4.2.4. Auditors expert performance in fraud detection

Seven questions were distributed to assess Auditors expert performance in fraud detection. The mean response of the seven questions under Auditors expert performance in fraud detection were more than 3.00 and the standard deviation were also less than

1.00, which indicates that the respondents perception were close to one another which revealed that on average the respondents agreed with the proposition that expertise auditors are the most effective corporate control available to management to address the threat of fraud.

Table 4.4. Descriptive statistics of Auditors expert performance in fraud detection

Items	Strongly Disagree		Disagree		Neutral		Agree		Strongly Agree		mean	*Std. Dev*
	No	%	No	%	No	%	No	%	No	%		
auditor is required to „possess the knowledge, skills, and other competencies to perform their individual responsibilities“	2	1.6	5	4.0	5	4.0	50	40.3	58	46.8	4.31	.868
the fraud detection task requires key, unique capabilities	2	1.6	5	4.0	5	4.0	50	40.3	58	46.8	4.31	.868
auditors should adopt to develop their knowledge of fraud and fraud detection	2	1.6	2	1.6	10	8.1	48	38.7	58	46.8	4.32	.830
expertise have higher effect on performance as fraud detection task complexity increases	2	1.6	5	4.0	5	4.0	50	40.3	58	46.8	4.31	.868
Auditors have characteristics of attention; simplify complexities, communication skills, confidence stress tolerance, and creativity.	2	1.6	5	4.0	5	4.0	50	40.3	58	46.8	4.31	.868

Auditor comprises the ability to exercise analytical reasoning, competency in technical skills, and competency in data analysis skills	2	1.6	5	4.0	5	4.0	50	40.3	58	46.8	4.31	.868
Auditors are being adaptive in their decision-making strategy	2	1.6	5	4.0	5	4.0	50	40.3	58	46.8	4.31	.868

Std. Dev- standard deviation

Source: Survey results

4.2.5. Factors affecting auditors' expert performance to fraud detection

Finally, the factors that could explain the auditors' expert performance to fraud detection in Ethiopian private auditors have been examined by estimating logit regression model and using Pearson correlation analysis. In this section, one dependent variable against five independent variables was investigated. The dependent variable is auditors expert performance to fraud detection, while the independent variables are certification, training, practical experience, audit fee size, and independence. The subsequent sections present the results of descriptive statistics, the Pearson correlation analysis and logit regression model respectively.

4.2.5.1. Descriptive Statistics

The table 4.5 below shows the descriptive statistics of the dependent variable, auditor"s expert performance to fraud detection and five independent variables.

Table 4.5. Descriptive statistics

Variables[1]	N	Minimum	Maximum	Mean	*Std. Dev.*
Certification1	120	1	5	3.93	.932
Certification 2	120	1	5	3.83	.990
Training 1	120	3	5	4.47	.607
Training 2	120	1	5	3.84	.961
Training 3	120	1	5	4.10	.920
Experience1	120	1	5	4.28	.862
Experience 2	120	1	5	4.38	.812
Experience 3	120	1	5	4.09	1.004
Audit fee size1	120	1	5	2.81	1.525
Audit fee size 2	120	1	5	2.65	1.388
Independence1	120	1	5	3.89	.877
Independence 2	120	2	5	4.00	.745
Independence 3	120	2	5	3.99	.628
Auditors expert performance to fraud detection 1	120	1	5	4.31	.868
Auditors expert performance to fraud detection 2	120	1	5	4.31	.868
Auditors expert performance to fraud detection 3	120	1	5	4.32	.830
Auditors expert performance to fraud detection 4	120	1	5	4.31	.868
Auditors expert performance to fraud detection 5	120	1	5	4.31	.868
Auditors expert performance to fraud detection 6	120	1	5	4.31	.868
Auditors expert performance to fraud detection 7	120	1	5	4.31	.868

Std. Dev. - standard deviation Source: survey results

[1] What the words and phrases under the variable column represents is explained in Appendix c.

As it is shown on table 4.4 above the minimum value of the mean for the dependent variable of auditors expert performance to fraud detection is 4.31 with a standard deviation of 0.83 and the maximum value of the mean is 4.32 with a standard deviation of 0.86. This positive high mean value indicates that most respondents agree with the auditors expertise is needed for fraud detection Ethiopia.

In addition, the mean and standard deviation for the independent variables (certification, training, experience, audit fee size, and independence) with thirteen items on five point Likert scale shows a minimum of 2.65 with a standard deviation of 0.607, and a maximum of 4.47 with a standard deviation of 1.525 respectively. Since the mean score for all the thirteen items is greater than 3.0, it could be argued that most of the respondents agree with the questions.

4.2.5.2. Pearson Correlation Analysis

In statistics, the Pearson correlation analysis is a measure of the correlation (linear dependence) between two variables, giving a value between +1 and −1 inclusive. It is widely used in the sciences as a measure of the strength of linear dependence between two variables. The p-value, in Pearson Correlation analysis, attempts to provide a measure of the strength of results of a test, in contrast to a simple reject or do not reject decision.

In Pearson correlation analysis the value of strength of relationship (r) plays an important role in determining the level of relationships among variables. The significance level, $p<0.05$ is also used to establish the relationship. This significance level shows that there

is only 5 percent chance that the relationship does not exist, and 95 times out of 100 times the relationship among variables can be defined as having significant correlation.

The table below shows the results of the Pearson correlation analysis among the variables, testing of the hypotheses and interpretation of the Pearson correlation results would be presented in a separate section with the results of the regression analysis.

Table 4.6. Pearson correlation

		AEPFD	CR	TR	ER	AS	IN
AEPFD	Correlation	1					
	Sig. (2-tailed)	-					
	N	120					
CR	Correlation	.461**	1				
	Sig. (2-tailed)	.000	-				
	N	120	120				
TR	Correlation	.602**	.486**	1			
	Sig. (2-tailed)	.000	.000	-			
	N	120	120	120			
ER	Correlation	.598**	.415**	.511**	1		
	Sig. (2-tailed)	.000	.000	.000	-		
	N	120	120	120	120		
AS	Correlation	.323**	.346**	.283**	.283**	1	
	Sig. (2-tailed)	.000	.000	.000	.000	-	
	N	120	120	120	120	120	
IN	Correlation	.392**	.430**	.321**	.402**	.218*	1
	Sig. (2-tailed)	.000	.000	.000	.000	.000	-
	N	114	114	114	114	114	114

**. Correlation is significant at the 0.01 level (2-tailed).
*. Correlation is significant at the 0.05 level (2-tailed).
Source: SPSS correlation result

As shown in the above table, of the total of five explanatory variables tested in this study, there is a significant correlation between the variables (certification, training, experience, audit fee size, and independence) and the auditor expert performance to fraud detection. The correlation between these five variables and auditor expert performance to fraud detection has a very strong value. Based on the results in table 4.6 there are positive

relationships between auditor expert performance to fraud detection and all of the independent variables, these shows that all of the hypotheses are supported.

4.2.5.3 Logistic Regression Analysis

In this section, in examining the factors that could affect auditors' expert performance to fraud detection in Ethiopian private auditors, the researcher used a regression analysis to test the effect of five independent (explanatory) variables on the dependent (explained) variable i.e. the auditors' expert performance to fraud detection. Thus, in this study the researcher used logit regression analysis, in which tests have been made to examine whether one or more independent variables influence the variation on dependent variable. The functional relationship between variables in this study is therefore, the auditors' expert performance to fraud detection is a function of certification, training, practical experience, audit fee size, and independence. However, to show how well the model containing those of five explanatory variables actually explains the variations in the dependent variable, i.e. the auditors' expert performance to fraud detection, it is necessary to test it through goodness of fit statistic.

Table 4.7 testing the model through ANOVA (Goodness of fit statistic)

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	10.395	4	2.0784	17.6688	.000[a]
Residual	11.8624	115	0.1888		
Total	22.2574	119			

a. Predictors: (Constant), cr, tr, er, as, in
b. Dependent Variable: AEPFD
Source: SPSS regression result

The above table summarizes the information about the variation of the dependent variable explained by the existing model used for this study and the residual that indicates the variation of the dependent variable that are not captured by the model. It is observed that the independent variables give a significant effect on the dependent variable, where F-value is 17.6688 with a p-value of less than 0.05 (i.e. $p<0.000$) indicating that, over all, the model used for the study is significantly good enough in explaining the variation on the dependent variable. To ensure the statistical adequacy of the model, the goodness of fit can also be measured by the square of the correlation coefficient also called R2.

Table 4.8 Goodness of fit through R Square

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	1.0928	0.7472	0.68	0.548864

a. Predictors: (Constant), cr, tr, er, as, in

Source: SPSS regression result

As shown in the table above, both R2 and adjusted R2 measure the fitness of the model i.e. they measure the proportion of the variation in dependent variable explained by the model. But since adjusted R2 is the modification for the limitation of R2 the value of the adjusted R2 is considered to measure the fitness of the model. Thus, as it is shown on table 4.8, the value of adjusted R2 is 0.68, indicating that the independent variables in the model are explaining 68% variation on the dependent variables. Thus, we can understand that the model of the study is providing a good fit to the data. This outcome empirically indicates that the independent variables in this study are the major determinants of auditor‟s expert performance to fraud detection in Ethiopian.

Table 4.9 below shows the results of the regression model. The result reveals that there exists a significant relationship between independent variables such as certification, training, practical experience, audit fee size, and independence and dependent variable, i.e. auditors expert performance to fraud detection.

Table 4.9 Regression analysis on auditor's expert performance to fraud detection.

Variables	**Coefficients**	**t-statistic**	**Prob.**
Constant	3.7904	13.3728	.000
Certification	0.0032	0.576	0.055
Training	0.2592	3.992	0.040
Experience	0.2864	3.9792	0.056
Audit fee size	0.1552	4.3616	0.012
Independence	0.1776	4.2272	0.010

Source: SPSS regression result

As shown in the above table, of the total five explanatory variables tested in this study, certification (p-value= 0.055), training (p-value=0.040), experience (p-value=0.056), audit fee size (p-value=0.012), and independence (p-value=0.010) were statistically significant at 10 percent or lower. In this study, the result reveals that there is a significant positive relationship between all the independent variables and the auditor‟s expert performance to fraud detection.

4.3 Discussions

The purpose of this section is to address each research questions in achieving the overall objective of the study using data presented in the preceding section. Hence, the results obtained under different methods are jointly analyzed to address each research question and hypothesis.

4.3.1 Private auditor's professional responsibilities and legal liability: the case of Ethiopia

Auditing Standards are the criteria or yardstick against which the qualities of audit results are evaluated. They provide minimum guidance for the auditor that helps to determine the extent of auditing steps and procedures that should be applied in the audit work. Similarly, the Ethiopian Government Auditing Standards stated that the statement of auditing standards describes the basic principles which govern the auditor"s professional responsibilities and which must be complied with whenever an audit is carried out. It provides a framework within which professional judgment must be exercised and establish the minimum standard to be followed on individual audits. (OFAG: Ethiopian Government Auditing Standards 2004)

Due to absence of a well-organized and empowered professional accounting and auditing body in Ethiopia at the present time, there are no formalized professional standards issued by any authority in the country. However, OFAG have adopted minimum auditing standards incorporated in their respective audit standards which it has developed. The task of preparing detailed ethical principles and rules is primarily that of the professional associations and that all members of the associations have the responsibilities to accept, implement and enforce such requirements. In Ethiopia, due to the absence of an organized strong national professional association there is no comprehensive set of ethical standards to govern the behaviors of professional accountants. In the case of authorized auditors, it is assumed that they adhere to the code of ethics set by the professional bodies to which they are members (OFAG 2004).

In this regard the survey respondents were asked whether there should be an audit standard in Ethiopia that would make auditors responsible for detecting and reporting frauds, Based on the data finding most of them stated (70%) of the respondents) are of the opinion that there should be a legislation to hold auditors responsible for preventing, detecting and reporting fraud. Though it is not a statutory requirement for auditors to prevent and detect fraud (Aderibigbe 1997), however, once fraud is detected auditors are required to report such fraudulent activities to the relevant authorities. Similarly, the interview result reveals that the present audit standards they are using make auditors have the responsibility to detect and prevent accounting fraud and already there. These shows auditing standards in Ethiopia should make auditors responsible for preventing, detecting and reporting fraud.

In relation to the respondents perceptions regarding auditor‟s responsibility include searching and detecting accounting fraud 28.3% per cent of the auditors sampled strongly agreed and 40.8 % agreed that it was the auditors‟ role in searching and to detect fraud. The quantitative results at table 4.1 also reveal a statistical mean response more than 3.00 and the standard deviations were close to 1.00, which indicates that the respondents perception were close to one another. However, the results obtained are in contrast with the requirements of the International Standards on Auditing. According to ISA 240 „Objective and General Principles Governing an Audit of Financial Statements", the objective of an audit of financial statements is to enable the auditor to express an opinion whether the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework. ISA 240 also requires an audit to be designed so that it provides reasonable assurance of detecting both material errors and

fraud in the financial statements. To accomplish this, the audit must be planned and performed with an attitude of professional skepticism in all aspects of the engagement. Professional skepticism is an attitude that includes a questioning mind and a critical assessment of audit evidence. The auditor should not assume that management is dishonest, but the possibility of dishonesty must be considered. The auditor also should not assume that the management is unquestionably honest.

In contrast, the interview result reveals that, the role of the auditor is not to detect fraud as the scope of their duties prohibited them from doing so, but in planning an audit so that there is reasonable expectation of discovery. The public is not sufficiently educated on the role of the auditor and this leads to unrealistic expectations on the part of clients, investors and others with vested interests. Besides, In accordance with ISA 240, the risk of not detecting a material misstatement resulting from fraud is higher. This is because fraud may involve sophisticated and carefully organized schemes designed to conceal it, such as forgery, deliberate failure to record transactions, or intentional misrepresentations being made to the auditor. The auditor‟s ability to detect a fraud depends on factors such as the skillfulness of the perpetrator, the frequency and extent of manipulation, the degree of collusion involved, the relative size of individual amounts manipulated, and the seniority of those individuals involved. Furthermore, the risk of the auditor not detecting a material misstatement resulting from management fraud is greater than for employee fraud.

The interview further reveal that when anything unusual or suspicious related to fraud found, their first idea in mind is always not to detect or report that. They prefer to keep silence for a while to observe the situation whether any other team member perceive the

potential fraud. The interviewees admitted that in their audits of listed companies, they did not want to meet then detect and report any corporate fraud or tried to stay away.

However, the others were adamant that detecting fraud was not only the auditors" responsibility but also the main objective of an audit. Further justified that if auditors do not detect fraud, why clients pay for an audit?" In contrast, other audit managers argued that, fraud detection is the responsibility of management, who controls the day-to-day running of the organizations. Auditors are not responsible for prevention and detection. We must do continuous risk assessment and tailoring of our audit strategy to suit. The attitude of professional skepticism also implies management must also be considered as a risk factor. The risk-based audit procedures used by auditors prohibited them from being totally responsible for fraud detection. The reporting of fraud is to management and the shareholders. One factor that was evident from the information collected was that the educational background in terms of accounting knowledge influenced whether the interviewee perceived that the auditor should detect fraud. The majority of the interviewees with an accounting background or qualification expressed the view that auditors were not responsible for detecting fraud. This included the auditors and several management respondents who had higher accounting qualification. However, auditors without that high accounting qualification held the opposing view.

The respondents were also asked to disclose and report potential fraud to appropriate authorities in audit report and whether they are liable if they fail to disclose fraud in audit report. The highest average values of respondents (mean response rate of 3.28) that users expect auditors to report all omissions and errors.

The high level among respondents in the auditors‟ group is surprising, showing that even among this category there are different perceptions on the obligation to report fraud in the issued report. However, as required by the auditing standards, the auditor has no right to report fraud and errors in its report and auditors advised to seek legal assistance to determine the usual procedures in such cases.

Besides, as stated on commercial code Art. 376 sub 1, auditors are legal responsible to inform directors irregularities. Thus where the auditors find irregularities or breaches of legal or statutory requirements, they shall inform the directors and, where grave irregularities or breaches have occurred, they shall inform the general meeting. (Art 376 of commercial code of Ethiopia).

The findings show an expectation gap between the respondents and the statutory requirements with respect to fraud detection and reporting. These finding further supported by a conclusion captured Oyinlola(2010), auditors should not accept liability to report fraud to the detriment of the organization, and if the most common factors affecting the audit work relate to fraud to the detriment of the organization, then the policies and procedures of auditors for prevention of fraud should relate to this fraud.

Respondents of 55.8% with a mean response rate of (2.38) believe that auditors are not liable if the company goes bankrupt due to fraud while 22.5 % of the respondents agreed and strongly agreed, and 21.6% of the respondents have a neutral position. This fact is further captured in an exclusive interview with audit mangers and noted that if auditors did not report the fraud and if the company goes bankrupt due to fraud they are responsible, but if the audit is financial statement audit other than investigative audit

auditors are not responsible if the company goes bankrupt no matter how the types of fraud and the bankruptcy.

On the other hand, auditors are legally liable for violation of professional responsibilities and legal responsibilities. Supporting this, Art 380 of commercial code of Ethiopia, state that auditors shall be civilly liable to the company and third parties for any fault in the exercise of their duties which occasioned loss. Besides an auditor who knowingly gives, or confirms an untrue report concerning the position of a company or fails to inform the public prosecutor of an offence which he known to have been committed shall be punished under Art. 438 or Art. 664 of penal

Code as the case may be. Of course, as stated on the commercial code of Ethiopia, Art 373, Auditors shall be liable to penalties prescribed in Art 407 of the penal code for breaches of professional secrecy, i.e. professional and legal responsibilities. Therefore, the researcher concludes from the above that private auditors should strictly follow that code of ethics formulated by OFAG and the commercial code of Ethiopia 1960 in examining entities books of accounts as well as in reporting to the users audited financial statements. Thus, failure to comply with these regulations has legal liability to their clients and the law of the land.

As depicted by table 4.1, the 28.3% of respondent agreed and 29.2% strongly agreed which is a mean response rate of 3.47 that private auditors are legally liable for subsequently discovery of misstatement audited financial statements. Similarly, all the interview respondents showed agreement to the same conclusion. However the interviewee argued that this hold true only if the auditor expressed inappropriate opinion.

From the above discussions the researcher concludes that the auditors not liable for subsequently discovered misstated audited financial statements if their opinion was qualified for these effects.

The analysis of the responses to the question whether auditors should assess management characteristics, to determine if they may lead to fraudulent financial reporting shows that , 42.7% (strongly agree) and 26.6% (agree) believe that auditors should develop and apply not only management characteristics but also should perform additional audit procedures in an attempt to uncover fraud .It is possible that the large number of persons who consider insufficient and inefficient the current procedures applied by auditors in respect to fraud detection to be a consequence of much publicized financial scandals involving statutory auditors, which arise among users of financial statements a feeling of helplessness of auditors in respect to fraud detection. They believe that auditors should assess internal controls used by the company to prevent or detect fraud. This time we can note that the answers are partially in accordance with the requirements of International Standard on Auditing ISA 400 „Risk Assessment and Internal Control". According to this standard, auditors are required to obtain sufficient information on accounting and internal control systems in order to plan the audit and to use an effective audit approach.

However, ISA 400 does not particularly require an assessment of the internal control as to whether or not such internal control system enables prevention or detection of fraud (theft of assets). However, According to ISA 550 "Related Parties", an audit cannot be expected to detect all related party transactions.

Nevertheless, auditors should perform audit procedures designed to obtain sufficient appropriate audit evidence regarding identification and disclosure by management of related parties and the effect of related party transactions that are material to the financial statements. The study found that respondents have higher expectations with respect to this issue that auditors should detect management characteristics and all related party transactions.

Overall, the results of this section show that there is a gap between the respondents‟ perceptions and the statutory requirements for auditors in respect to responsibilities related to detecting and reporting fraud. This may suggest that the auditing standards auditors applying are deficient and insufficient in respect to issues related to responsibilities fraud detection and reporting.

4.3.2 Extent of fraud

In this section, the questionnaire results related to the extent of fraud were analyzed.

Two questions were distributed to assess existence and extent of fraud of fraud in Ethiopia and its impact on users. The mean response of the two questions under extent of fraud to users and companies were more than 3.00 and the standard deviation were also close to 1.00, which indicates that the respondents perception were close to one another.

The auditors (mean 3.36) did not differ significantly on the question of the impact of the size of Ethiopian society on fraud occurrence or detection. They agreed that the Ethiopian company do have an effect on fraud occurrence or detection. However, Table 4.2 further revealed a statistical significant difference between auditors on fraud being a major problem in Ethiopia. Some auditors tended to show moderate disagreement (15.3) in fraud being a major problem compared to the strong disagreement of the auditors (7.3%).

Discussions with the interviewees revealed that fraud was not viewed as a major problem. Interviewees believed it was because businesses with one or few staff members were able to detect and correct any fraud because of their "hands on" involvement in most aspects of the business.

The larger organizations use internal auditors, strong internal controls, constant reviews and made improvements where necessary, to prevent and detect fraud. Tough disciplinary measures such as immediate dismissal and suspensions were used to deter and correct fraudulent activities. However, The survey respondents suggested the following factors from their experience as the reasons for committing fraud: the moral values of individuals; the need to maintain an increasing social status; persons unhappy with their job; people with increasing indebtedness; individuals who "see other people doing it"; and persons who feel that they would not be caught.

The understanding and reaction to fraud was determined not only by the size of the fraud and who committed it, but also against which organization the fraud was committed. Some interviewee said that, Organizations like financial institutions keep such matters in-house and try to recover losses or minimize erosion of public confidence by not prosecuting perpetrators of fraud. Auditors and users did not view fraudulent financial reporting as a major issue, as it was commonly felt that there were no major incentives to do it.

Furthermore, respondents argued that there were no publicized cases of fraudulent financial reporting in Ethiopia. However, a small minority of the auditors felt that it could happen whenever additional financing was needed or tax liabilities needed to be reduced.

Overall the responses in this study show that fraud is not an area of concern in Ethiopia, the majority of responses did not agreed with the statements is due to the absence of publicity of fraud cases in Ethiopia . Such responses reflect the absence of reaction by fraud concerned legal bodies‟ to publicize fraud cases, despite fraud would affect to the users when it occurs. As we know it, fraud would affect the integrity of financial statements, making the reader misunderstand about the financial statements. And if the financial statement frauds are detected, users will reduce confidence in the financial statements and business.

4.3.3 Constraints exist on external auditors' attempt to exercise their responsibility

As stated in the review of literature part of the study, in order to make rational business decisions, investors, creditors, managers, shareholders of a business need financial information of their own as well as competitors. Accordingly, in order to be confident in making decision they base their decision on audited financial statements. In some instances, when auditors fail to detect financial statement fraud and it is discovered subsequent to their reports, the effectiveness of financial statement audit is questioned and the usefulness of the audit function is challenged. If audited financial statements are materially misleading and contain material frauds, and if investors and creditors use those statements for financial decision making, investors and creditors may allocate their resources uneconomically to unproductive companies. Therefore, it is the responsibility of auditors to disclose information shown on the financial statements to the users of audited financial statements. However, there are constraints on auditors in attempting to exercise their responsibilities. Thus, as determined from the survey questionnaire and interview result, auditors are subject to different constraints:

As shown in table 4.3 above 17 questions were distributed to assess the constraints exist on external auditors in attempt to exercise their responsibility. All questions had a mean response of more than 3.00. Standard deviations of the some questions were more than 1.00. This indicates that the respondents perception were far away from one another.

As determined from the survey result shown in table 4.3, most of the respondents (71%) argued that clients demand unqualified opinion. They believe that sometimes there is a loss of client when the opinion goes too qualified or disclaimer or adverse one. Also interview result suggests that audit firms have little ability to withdraw pressure from their clients to keep independence. Further, the worry of losing their clients who is the main source of income became greater. In an auditor-client relationship, the clients are in the more powerful position because they are responsible for hiring and dismissing their audit firms. As a consequence, the interviewees admitted that they were unwilling to detect and report corporate fraud. This is also supported by the results of the 2009 survey carried out by author Arjarquah**,** according to which audit firms close relationship with auditee impair auditors to detect or report any fraud happened during audit examination.

Further, the survey respondents (mean response 3.54) agreed with audit firms are influenced by any kind of relationships. This fact is further captured in an exclusive interview of audit managers. The audit mangers pointed that they can easily be influenced by all kind of relationships. Meanwhile, they do not want to break any harmonious relationships, if do so, it will hurt their business career. The interviewees said that because of the strength of interpersonal relationship destroy their independence they frequently find it difficult to comply fully with auditing standards and professional ethics. Consequently, auditors may not detect fraud that is likely to have been uncovered had auditing and ethical standards have properly followed.

As a result violation of the professional responsibilities occurred. In this regard, it needs to be realized that users of audited financial statements have a very distant relationship with the company‟s auditors while that between the auditors and the company‟s management is significant and direct.

As determined from the survey respondent analysis another major challenge for auditors to detect fraud can arise due to the lack of nationally organized professional body that is responsible for controlling the duties and responsibilities of auditors and to formulate principles, standards which govern practicing accounts and auditors in Ethiopia. Most of the survey respondents believe that absence of nationally organized professional bodies and audit standards forced to depend excessively on international standards on auditing. Similarly, the interview result reveals that dependence on International Standards on Auditing there has been a time gap between the amendments of these standards and application in Ethiopia.

Survey responses showed that another challenge in the external audit is that lack of real information presentation, according to interviewee it is due to absence of clear interpretation of tax low /proclamation, absence of well documented information on change implementation, by tax authority that auditees forced to present false information for the sake of tax reduction. Hence, most of the time private organizations except share companies do not want to present real information for auditing.

Responses from the majority of the interviewee revealed that, one of the major constraints in the audit work is lack of demand of audit service on the part of the clients or business firms on regular basis. This is due to the fact that most audit client need audit service in the interim period of tax reporting.

According to the results, it was found out that apart from the general or universal parameters such as professional qualifications, ethics and objectivity which hinder the work of external auditors, the external auditor play a very important role in ensuring that the companies conforms to reliable financial reporting environments and standards.

The result in table 4.3 revealed that on average the respondents agreed up on that internal auditors do not cooperate fully with external auditors, delay of financial statement quarterly and annually, and requisite support just to mention but a few. The survey respondents agreed with the proposition that Large audit fee impair auditor independence (with a mean response of 3.04). According to the interview result this is due to the fact that large audit fee make auditor‟s excessive dependent on the client which as a result impair independence and restrain from accurate audit. This results in not only increased dependent on the client but also make auditors to present and report false audit report

On top of all these some managers said that Large audit fee impair auditor independence, absence of clear interpretation of tax low /proclamation, absence of well documented information on change implementation, etc. by tax authority are the main challenges of audit. So fraud is difficult since the participants are cooperating to realize this fraud because of collusion , Lack of a professional accounting body which is strong and independent in Ethiopia is a major constraint /weakness for the profession, lack nationally organized professional body in Ethiopia is weak . Consistent with the findings of this study authors do the Trang (2011) examined the challenges of external auditing in Vietnam and find that Over reliance on client representations, Lack of awareness or failure to recognize that an observed condition may indicate a material fraud, Lack of experience, Personal relationships with clients, which contribute as obstacles they face when dealing

with external auditing. Respondents further expressed that the external auditors to detecting and reporting corporate fraud, they are not clear with the responsibilities specified in relevant laws, regulations and professional standards. They admitted that a further factor limiting auditors‟ ability in detecting and reporting corporate fraud is their lack of understanding of ISA.

4.3.4. Auditors expert performance in fraud detection

Seven questions were distributed to assess Auditors expert performance in fraud detection. The mean response of the seven questions under Auditors expert performance in fraud detection were more than 3.00 and the standard deviation were also less than 1.00, which indicates that the respondents perception were close to one another. The findings of this survey seem consistent with the results of the survey carried out by Mui (2009) among Australian and newzealand internal audit practitioners from government, chartered accounting firms, and other organizations, which revealed that on average the respondents agreed with the proposition that expertise auditors are the most effective corporate control available to management to address the threat of fraud.

In relation to the assertion that auditor is required to possess the knowledge, skills, and other competencies to perform their individual responsibilities‟ (with mean response of 4.31) believe that auditor is required to „possess the knowledge, skills, and other competencies to perform their individual responsibilities‟.

The survey respondents agreed with the proposition that the fraud detection task requires key, unique capabilities. Similarly, the interview result reveals that auditors should have unique skills of mentoring, technical skills, and the ability to work within a team and in

assisting management and the board in identifying, evaluating, and implementing risk management methodologies and controls to address risks in collaboration with internal auditors. Respondents who do not agree that fraud detection task requires key, unique capabilities may be influenced by in the Fraud detection and Control requirement that internal controls are the first line of defense against fraud (ACFE, 2008).

Almost all of the respondents believe that auditors should adopt to develop their knowledge of fraud and fraud detection while most believed that expertise have higher effect on performance as fraud detection task complexity increases. Auditors should also have expert characteristics of attention; simplify complexities, communication skills, confidence stress tolerance, and creativity. Many of the respondents believe that Auditor comprises the ability to exercise analytical reasoning, competency in technical skills, and competency in data analysis skills. In relation to analytical reasoning, competency in technical skills, and competency in data analysis skills, the interview result reveals that auditor must first adequately plan the work through gaining an understanding of the client‟s business and industry as one of the most important steps in audit planning and then the use of audit sampling shows the auditors analytical reasoning, his competency in technical and data analysis skills. This finding was (consistent with The Mui (2009), Bonner and Lewis (1990) and the Libby and Tan (1994)).

The final question under auditors expert performance in fraud detection was about auditors are being adaptive in their decision-making strategy; possessing the ability to identify relevant facts; being inquisitive about all aspects of an issue; and having the ability to make exceptions. As it is shown in the table above the mean response and standard deviation indicates that auditors are being creative in solving problems.

The finding of this study is supported by the conclusions‟ forwarded by Bonner and Lewis (1990); and Leuz, and Verrecchia, (2000), Abdolmohammadi, Searfoss, and Shanteau (2004), Kent, Munro, and Gambling, 2006 and Mui (2009) states that problem-solving is partially innate characteristic of an auditor which is the attributes of top industry audit specialists that contribute to expertise in auditor judgment.

The last section of the study aims to find out the factors affecting auditors' expert performance to fraud detection in Ethiopian private auditors. This particular section presents the results of the study indicated by statistics, using correlation and regression analysis. The correlation and regression between independent variables and auditors' expert performance to fraud detection were compared against the hypotheses tested in the investigation. The results show that there are significant relationship between independent variables such as certification, training, practical experience, audit fee size, and independence and dependent variable, i.e. auditors expert performance to fraud detection. All of the hypotheses are supported, the study found that there is a significant positive relationship between all independent variables and auditors expert performance to fraud detection.

In the next section the effect of each independent variable tested under this study is discussed and analyzed based on the theoretical predictions, prior empirical studies and hypothesis formulated for this study.

Certification

In this study both the Pearson correlation and regression results indicate that there is significant relationship between certification and auditors expert performance to fraud detection. The results of the Pearson correlation indicate that the value for the correlation coefficient (r) is 0.461 and significant at 0.1. On the other hand the results of the regression analysis shows there is strong relationship between certification and auditors expert performance to fraud detection, with a regression coefficient of 0.0032, t-statistic of 0.576 and P-value of 0.0552. This indicates that this value is significant to further the relationship with auditor‟s expert performance to fraud detection. Therefore, the first hypothesis is accepted. This implies that professional certification reflects possession of the auditor to the structure of developed knowledge includes general knowledge, which is the facts, theories and definitions which are mentioned in the books, magazines, and special knowledge and represented in the knowledge related to the completion of some tasks, and is correlated to a large extent with the scope of the efficiency of memory and the personal attributes and beliefs affect the test and modernize the knowledge infrastructure, and the pace of increase in building good attitudes and having prior knowledge about fraud and this well-organized and certified knowledge into memory quickly and easily call for the knowledge on need . The result is consistent with the findings of Defond et al.(2002), Geiger and Raghunanda(2002), and Dang(2004) that when auditors are certified in accounting and auditing profession, their ability to detect fraud is higher suggesting that audit firms should support auditors have accounting and auditing certification. Similarly, the result generated from the interview also supports the output of the regression analysis fully. That is certification is the maximum level at which auditors could develop their knowledge of fraud and fraud detection.

Training

In this study, both the correlation and the regression result shows there is a significant positive relationship between training and auditors expert performance to fraud detection. As it is presented on table 4.5, the Pearson correlation result shows a significant correlation between training and auditors expert performance to fraud detection with correlation coefficient of r = 0.602 and significant at 0.05. The regression result also shows a significant relationship between training and auditors expert performance to fraud detection, with a regression coefficient of 0.2592, t-statistic of 3.992 and P-value of 0.04. Thus, from the result it can be concluding that training influences auditor‟s expert performance to fraud detection. This result is consistent with the hypothesis of the study.

Consistent with the result of this study a number of prior empirical evidence found significant relationship between training and auditors expert performance to fraud detection; (e.g. Mui (2009), Bonner and Lewis (1990) and the Libby and Tan (1994)). In conformity with this that Bologna et al.(1993) , states, an auditor to be effective as expert witness, he or she should have good communication skills, able to think logically while under pressure, and should have able trained to exhibit financial data in financial statements for improved fraud detection and deterrence though educational seminars. Similarly, the result obtained from interview clearly supports the regression output. As per the interview continuous learning is the most effective method of developing internal auditors‟ knowledge of fraud and fraud detection which provide knowledge of cases of fraud and fraud risk management with the advantage of learning about the types of fraud, how fraud can be perpetrated and detected, and responses to incidences of fraud.

Experience

As it is presented on table 4.8, there is a positive correlation between experience and auditors expert performance to fraud detection with a correlation coefficient of 0.598 and significant at 0.1. The correlation between experience and auditors expert performance to fraud detection in Ethiopian private auditors has a very good value. Similarly the regression result shows a significant positive relationship between auditors experience and auditors expert performance to fraud detection, with a regression coefficient of 0.2864, t-statistic of 3.9792 and P-value of 0.056. This indicates that experience influences auditors expert performance to fraud detection that experienced experts have better planning of the problem ,can imagine that the fundamental problem with the decision of auditor , diagnostic the errors in the financial statements in the sessions of the processes that lead to errors of financial statements, and therefore are supposed to be the organization of expert knowledge about the references of possible errors and potential in the financial statements, comprising the basic elements of a knowledge necessary to perform this act of personal assumptions. Out of the risk factors, related to these assumptions and thus whenever the auditor gain experience, the greater the knowledge of the types of errors the financial statements he discovers and increased the knowledge of rates of occurrence of these errors and increased organization to know the mistakes of the financial statements of the different aspects and the result is consistent with the hypothesis of the study. The interview result reveals against that the regression output that no of years‟ experience do not necessarily influence fraud detection it depends on the auditors interest to develop their knowledge through experience that means, experience is not directly related to the quality of audit job, because sometimes it is difficult to learn in

a limited time when doing accounting and audit activity. However, The finding of this study is supported by the conclusions‟ forwarded by Kolodner‟s (1996) , DeFond and Francis (2005), Smith (2009), and Wang et al., (2012),they argued that experience is one of important factors to improve quality in doing a job. They also concluded that auditor has experience; his effort to detect fraud improves.

Audit fee size

As it is presented on table 4.5, there is a positive correlation between audit fee size and auditors expert performance to fraud detection with a correlation coefficient of 0.323 and significant at 0.05. The correlation between audit fee size and auditors expert performance to fraud detection in Ethiopian private auditors has a very good value. Similarly the regression result shows a significant positive relationship between audit fee size and auditors expert performance to fraud detection, with a regression coefficient of 0.1552, t-statistic of 4.3616 and P-value of 0.0128. This indicates that audit fee size influence auditors expert performance to fraud detection and the result is consistent with the hypothesis of the study. However some of the result obtained from interview was against the result of the regression output. As per the interview, Less and large audit fee have no relationship with fraud and Less/large audit fee can only limit the place where auditors go to (like if the clients company have branches in different Ethiopian cities) not the audit effort to detect fraud or forming audit opinion of clients financial statement/report. Others Support the regression result that, large/less audit fee impair auditor independence consequently have a great impact on quality of audit as his exert larger and lesser effort to identify and detect fraud.

Both the regression and Pearson correlation analysis results show that there is significant relationship between audit fee size and auditors expert performance to fraud detection. Consistent with the result of this study Johnson (1998), examining the relationship between audit fees and auditors effort in detecting fraud is likely to aid the understanding of quality and independence of auditor, and also provide a better insight into the market of audit services. Johnson found that, in a competitive market for audit services it is reasonable to argue that when an auditor charges a premium fee to a client this will be associated with a better quality of assurance services provided.

Independence

In this study, both the correlation and the regression result shows there is a significant positive relationship between independence and auditors expert performance to fraud detection. As it is presented on table 4.5, the Pearson correlation result shows a significant correlation between independence and auditors expert performance to fraud detection with correlation coefficient of 0.392 and significant at 0.1. The regression result also shows a significant relationship between independence and auditors expert performance to fraud detection, with a regression coefficient of 0.1776, t-statistic of 4.2272 and P-value of 0.1. This suggests that auditor‟s objectivity and ability to withstand client pressure to acquiesce substandard reporting, the competitive pressure from price cutting of clients, economic dependence of auditors eases to identify where fraud lies and for reporting a discovered breach. However, as per the interview conducted with audit managers, Ethiopian auditors are not allowed to behave independently in auditing, rather they have to deal either with the manager or the company whatever fraud, error, breach or

other financial misstatement detected during auditing. This is of course enhancing the effort to improve fraud and in turn affect audit quality in general.

Thus, from the result it can be conclude that independence influences auditor‟s expert performance to fraud detection. This result is consistent with the hypothesis of the study. According to the regression and Pearson correlation analysis results there is a significant relationship between independence and auditors expert performance to fraud detection and The result is supported by the findings of Alim (2007 Defond et al. (2002), Geiger and Raghunandan (2002), and Dang (2004). The rationalization of this finding is because independence is the corner stone of the audit profession. Therefore, when an auditor behaves more independently, the quality of audit improves.

Chapter 5: Conclusions and recommendations

This chapter presents conclusions and recommendations of the study. It has two parts; the first part presents conclusions and the second part presents recommendations of the study.

5.1. Conclusions

This study explores the auditors‟ responsibilities in detecting fraud: in Ethiopian private audit firms .It also investigates the perceived extent of the auditor‟s expert performance in fraud detection.

Fraud detection was considered to be an unstructured audit task with an impoverished learning environment. Therefore, the learning processes for developing external auditors‟ knowledge of the fraud detection task would have to be unique to the fraud detection task. The results of the survey reveal that auditors are responsible for detection and uncovering fraud and reporting intentions of an auditor to the concerned body depends upon the type of fraudulent act basically if it is investigative audit than financial statement audit. Fraud, in general, was not perceived to be a major problem in Ethiopian (There is no audit risk in our country Ethiopia).

It has been identified through this study and in principle auditors are legally liable for subsequently discovered misstatement audited financial statements.

The main challenges auditors fail to detect fraud include unwillingness to look for fraud because of fear of spoiling good relationship with those that might be involved in the fraud and fear of possible risks on the person which would psychologically impair the auditor independence a matter which causes the auditor not to be able to perform with full objectivity and non-biasness, too much trust placed on the auditees, management and

employees, auditor not giving enough emphasis to audit quality, management not having fraud policy; and, failure to focus on high-risk fraud areas.

Other key challenges include fraud is difficult to detect coz of collusion since the participants are cooperating difficult to realize fraud. Absence of clear interpretation of tax law /proclamation, absence of well documented information on change implementation by tax authority, Lack of a professional accounting body which is strong and independent and absence of well-organized professional body in Ethiopia may cause auditors not be aware of and not to properly exercise their professional and legal responsibilities.

Finally, this empirical study has been conducted to critically examine the factors that could influence the auditor‟s expert performance to fraud detection. The survey results revealed that overall, external auditors had a positive perception of certification, practical experience, training, audit fee, and independence. When the logit regression model of auditor expert performance was applied to all external auditors, the *R2* value was 68% .The *R2* values are classified by Cohen (1988) as a good result (i.e. above 0.26) for the behavioral sciences. Collectively, the five determinants in the model of auditor expert performance in fraud detection were considered to be good predictors of expert performance in fraud detection.

5.2 Recommendations

The following possible recommendations can be forwarded in order to help auditors in exercising their professional responsibilities to detect fraud, and in providing decision makers with relevant audit report.

Auditors shall assign field auditors who are expert but if expert staff not exist they should train the existing staff in order to attain professional competence and also the staff should be aware of the development of their profession and senior auditor‟s should supervise field auditors.

Auditors should give an opinion based on the findings during an examination of financial statements not based on the wish of their client‟s.

Auditors need to "audit smarter" because they operate in a fixed fee environment, which limits the fees, that clients are willing to pay. This can be accomplished by the need for auditors to be more aware context in which the audit occurs and the fact that the nature and concentration of fraud varies by industry.

Auditors should exercise greater skepticism and rigorous assessment of management‟s integrity to identify the areas where fraud lies, which are also required by SAS No. 99.

From an ethical viewpoint, external auditors should report any suspicion of fraud rather than remain silent.

There should be establishment of professional organizations in Ethiopia that would work on promoting the auditor's profession through well educating the auditor about his duties, responsibilities and restrictions on the engagement.

An auditor should always keep and improve their experience, certification, training independence because these factors affect their capacity to detect fraud and improved audit quality

This research could not see from audit client‟s viewpoint which is in fact relevant to include this to come up effective results and the researcher believed this would be another research area for other researchers.

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Appendices

Appendix (A)

Addis Ababa University

College of business and economics

Department of Accounting and Finance

Questionnaire

This project is entitled Auditor responsibility and fraud detection: In Ethiopian private audit firms. The investigator is Adane Wudu Abebaw who is currently an MSc (in Accounting and Finance) student at Addis Ababa University.

The aim of this project is to examine the roles and responsibilities of external auditors in fraud detection in Ethiopia and also to investigate the factors that influence external auditors' responsibility and expert performance in detecting fraud. To supplement the data obtained from different sources, the investigator seeks to gather relevant information from a sample of 150 auditors by means of self-administered question using semi structured questionnaire.

Participation in this project is completely voluntary, the questionnaire results will be recorded anonymously and strict confidentiality will be maintained. Individual responses will not be identified in the investigator‟s MSc thesis.

For further information please contact **Adane Wudu** by the following address.

Tel: - 0912 49 27 32

Email: - abushmother@gmail.com

Section 1: *Demographic Background*

Please kindly tick (√) your answer in the appropriate boxes or respond by writing if required.

1. Gender:

☐Female ☐Male

2. The highest education completed

☐Technical / vocational certificate (Diploma)

☐Bachelor"s degree

☐Master"s degree

☐Other (specify) _____

3. Years of work experience:

☐Less than 5 years

☐6 to 10 years

☐11 to 15 years

☐16 to 20 years

☐Over 20 years

4. Current position in your organization_____

5. The level (grade) of your firm

☐A

☐B

☐C

Section 2: Your perception towards factors that could affect auditors' expert performance to fraud detection and external auditors' responsibility and fraud detection.

In this section the researcher is seeking your specific perceptions towards the **auditors' expert performance to fraud detection**. Please kindly indicate the appropriate scale for your opinion by ticking (√) on the spaces that indicate your choice from the options that range from **'strongly Disagree (SD), Disagree (D), Neutral (N), Agree (A) to strongly Agree (SA)'.**

A. Factors affecting auditors' expert performance to fraud detection

	SD	D	N	A	SA
Certification					
1. Professional certification obtained from a formal education process demonstrates an individual auditor‟s fraud detection competency	( )	( )	( )	( )	( )
2. certification establish a reliable, standardizing fraud testing instrument	( )	( )	( )	( )	( )
Training					
3. Training, case studies, and simulations keep updated with fraud detection knowledge	( )	( )	( )	( )	( )
4. average number of hours of training the auditors completed during the year influence auditors fraud detection	( )	( )	( )	( )	( )
5. Continuous learning influence audit detection					
Experience					
6. Direct Technical knowledge of audit tasks enhance auditors fraud detection capability	( )	( )	( )	( )	( )
7. Repeated exposure to the fraud detection develop auditors fraud detection task	( )	( )	( )	( )	( )
8. number of years of external audit experience influence fraud detection	( )	( )	( )	( )	( )
Audit fee size					
9. Less audit fee reduce the scope of audit effort to detect fraud	( )	( )	( )	( )	( )
10. large audit fees paid by the client make the auditor more economically dependent on the client	( )	( )	( )	( )	( )
Independence					
11. Programming independence influence fraud detection effort	( )	( )	( )	( )	( )
12. Investigative independence influence fraud detection effort	( )	( )	( )	( )	( )

13. Reporting independence influence fraud detection effort	( )	( )	( )	( )	( )

B. Auditors expert performance in fraud detection

	SD	D	N	A	SA
14. auditor is required to „possess the knowledge, skills, and other competencies to perform their individual responsibilities“	( )	( )	( )	( )	( )
15. the fraud detection task requires key, unique capabilities	( )	( )	( )	( )	( )
16. auditors should adopt to develop their knowledge of fraud and fraud detection	( )	( )	( )	( )	( )
17. expertise have higher effect on performance as fraud detection task complexity increases	( )	( )	( )	( )	( )
18. Auditors have characteristics of attention; simplify complexities, communication skills, confidence stress tolerance, and creativity.	( )	( )	( )	( )	( )
19. Auditor comprises the ability to exercise analytical reasoning, competency in technical skills, and competency in data analysis skills	( )	( )	( )	( )	( )
20. Auditors are being adaptive in their decision-making strategy; possessing the ability to identify relevant facts; being inquisitive about all aspects of an issue; and having the ability to make exceptions	( )	( )	( )	( )	( )

C. Extent of fraud

	SD	D	N	A	SA
21. Do you think that frauds are a major concern in company?	( )	( )	( )	( )	( )
22. Do you think that the discovery of fraudulent activity would have a negative impact on users?	( )	( )	( )	( )	( )

D. Role and responsibilities of auditor in fraud detection

	SD	D	N	A	SA
23. Is it the auditor's responsibility include searching or detecting accounting fraud?	( )	( )	( )	( )	( )
24. Do you think that auditing standards may make auditors have the responsibility to detect and prevent accounting fraud?	( )	( )	( )	( )	( )
25. do Private auditors are legally liable for subsequently discovery of misstated audited financial statements?	( )	( )	( )	( )	( )
26. Do you feel that it is the responsibility of the auditor to uncover fraud and to report this to the appropriate authorities?	( )	( )	( )	( )	( )
27. Do you think that auditor should assess management characteristics, to determine if they may lead to fraudulent financial reporting?	( )	( )	( )	( )	( )
28. Auditor is responsible if the company goes bankrupt due to fraud	( )	( )	( )	( )	( )
29. Auditors are liable for losses of interested parties if failed to disclose potential fraud in audit report	( )	( )	( )	( )	( )
30. The extent of assurance given by the auditors is clearly indicated in the audit report	( )	( )	( )	( )	( )
31. Do you consider that there should be an audit standard that would make auditors responsible for detecting and reporting frauds?	( )	( )	( )	( )	( )
32. The auditor's responsibility in relation to fraud should be clearly indicated in the audit report	( )	( )	( )	( )	( )

E. constraints exist on external auditors in attempt to exercise their responsibility

	SD	D	N	A	SA
33. Clients demand unqualified opinion	( )	( )	( )	( )	( )
34. clients Low demand for audit service	( )	( )	( )	( )	( )
35. absence of strong professional association for auditors	( )	( )	( )	( )	( )
36. family/friend/personal relationship based client selection by audit firm	( )	( )	( )	( )	( )
37. Lack of nationally organized professional body	( )	( )	( )	( )	( )
38. lack of real information presentation for auditing	( )	( )	( )	( )	( )
39. lack of clients regular demand for audit service	( )	( )	( )	( )	( )
40. Pressure from Clients to complete their work	( )	( )	( )	( )	( )
41. Failure to brainstorm potential fraud schemes	( )	( )	( )	( )	( )
42. Lack of cooperation from internal Auditors	( )	( )	( )	( )	( )
43. Delay in preparation of financial statement	( )	( )	( )	( )	( )
44. Fear of losing client	( )	( )	( )	( )	( )
45. Unsatisfactory explanations to enquiries	( )	( )	( )	( )	( )
46. Missing vouchers and source documents	( )	( )	( )	( )	( )
47. Misconception on the work of the External Auditors	( )	( )	( )	( )	( )
48. Ability to pay Audit fees	( )	( )	( )	( )	( )
49. Poor record keeping of client‟s transaction.	( )	( )	( )	( )	( )
50. Lapses in the implementation of internal controls	( )	( )	( )	( )	( )

Additional comments

_____

_____

_____

_____.

Appendix (B)

Addis Ababa University

College of business and economics

Department of Accounting and Finance

Interview guide

This project is entitled Auditor responsibility and fraud detection: In Ethiopian private audit firms. The investigator is Adane Wudu Abebaw who is currently an MSc (in Accounting and Finance) student at Addis Ababa University.

The aim of this project is to examine the roles and responsibilities of external auditors in fraud detection in Ethiopia and also to investigate the factors that influence external auditors' responsibility and expert performance in detecting fraud. The intent of this interview is to explore information regarding Auditor responsibility and fraud detection: In Ethiopian private audit firms and to have sufficient response to the research problem in addition to questionnaires distributed to all auditors of selected external audit firms. The interview will be made with audit firm managers and directors of the selected companies.

Participation in this project is completely voluntary, the questionnaire results will be recorded anonymously and strict confidentiality will be maintained. Individual responses will not be identified in the investigator‟s MSc thesis.

For further information please contact **Adane Wudu** by the following address.

Tel: - 0912 49 27 32

Email: - abushmother@gmail.com

1. To what extent do private auditors exercise their professional responsibilities?

2. What would you say are the main factors that could influence the external auditor‟s expert performance in fraud detection?

3. Could there be a relationship between external auditor‟s professional ethics and reliable financial statements?

4. Would the professional qualification of external auditors affect the reliability of published financial statement?

5. What are the main problems/constraints faced by auditors in the process of audit (in discharging/ attempting to exercise their responsibility?

6. What are the ways through which these problems can be addressed? Please recommend some solutions to overcome the problems.

Appendix (C)

Frequency Distribution Analysis

Demographic characteristics of respondents

Demographic Elements	Characteristics	Number of Respondents	Percentage
Gender	Female	41	63.7
	Male	79	33.1
Academic Level	Diploma	1	8
	Bachelor	98	79
	Masters	21	16.9
Working Experience	less than five years	59	47.6
	6 to 10 years	44	35.5
	11 to 15 years	7	5.6
	16 to 20 years	5	4
	over 20 years	5	4
The level(grade) the firm	A	42	33.9
	B	44	35.5
	C	34	27.4

Source: Survey result

Independent Variables: Frequency Distribution Analysis

Certification 1(Professional certification obtained from a formal education process demonstrates an individual auditor's fraud detection competency)

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1	2	1.6	1.7	1.7
	2	10	8.1	8.3	10.0
	3	14	11.3	11.7	21.7
	4	62	50.0	51.7	73.3
	5	32	25.8	26.7	100.0
	Total	120	96.8	100.0	
Total		120	100.0		

Certification 2(certification establish a reliable, standardizing fraud testing instrument)

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1	2	1.6	1.7	1.7
	2	14	11.3	11.7	13.3
	3	16	12.9	13.3	26.7
	4	58	46.8	48.3	75.0
	5	30	24.2	25.0	100.0
	Total	120	96.8	100.0	
Total		120	100.0		

Training 1 (Training, case studies, and simulations keep updated with fraud detection knowledge)

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	3	7	5.6	5.8	5.8
	4	50	40.3	41.7	47.5
	5	63	50.8	52.5	100.0
	Total	120	96.8	100.0	
Total		120	100.0		

Training 2 (average number of hours of training the auditors completed during the year influence auditors fraud detection)

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1	4	3.2	3.3	3.3
	2	7	5.6	5.8	9.2
	3	21	16.9	17.5	26.7
	4	60	48.4	50.0	76.7
	5	28	22.6	23.3	100.0
	Total	120	96.8	100.0	
Total		120	100.0		

Training 3 (Continuous learning influence audit detection)

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1	4	3.2	3.3	3.3
	2	4	3.2	3.3	6.7
	3	9	7.3	7.5	14.2
	4	62	50.0	51.7	65.8
	5	41	33.1	34.2	100.0
	Total	120	96.8	100.0	
Total		120	100.0		

Experience 1(Direct Technical knowledge of audit tasks enhance auditors fraud detection capability)

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1	2	1.6	1.7	1.7
	2	5	4.0	4.2	5.8
	3	5	4.0	4.2	10.0
	4	53	42.7	44.2	54.2
	5	55	44.4	45.8	100.0
	Total	120	96.8	100.0	
Total		120	100.0		

Experience 2(Repeated exposure to the fraud detection develop auditors fraud detection task)

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1	2	1.6	1.7	1.7
	2	2	1.6	1.7	3.3
	3	7	5.6	5.8	9.2
	4	46	37.1	38.3	47.5
	5	63	50.8	52.5	100.0
	Total	120	96.8	100.0	
Total		120	100.0		

Experience 3(number of years of external audit experience influence fraud detection)

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1	4	3.2	3.3	3.3
	2	5	4.0	4.2	7.5
	3	16	12.9	13.3	20.8
	4	46	37.1	38.3	59.2
	5	49	39.5	40.8	100.0
	Total	120	96.8	100.0	
Total		120	100.0		

Audit fee size 1(Less audit fee reduce the scope of audit effort to detect fraud)

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1	37	29.8	30.8	30.8
	2	19	15.3	15.8	46.7
	3	16	12.9	13.3	60.0
	4	26	21.0	21.7	81.7
	5	22	17.7	18.3	100.0
	Total	120	96.8	100.0	
Total		120	100.0		

Audit fee size 2(large audit fees paid by the client make the auditor more economically dependent on the client)

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1	37	29.8	30.8	30.8
	2	23	18.5	19.2	50.0
	3	14	11.3	11.7	61.7
	4	37	29.8	30.8	92.5
	5	9	7.3	7.5	100.0
	Total	120	96.8	100.0	
Total		120	100.0		

Independence 1(Programming independence influence fraud detection effort)

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1	2	1.6	1.7	1.7
	2	5	4.0	4.2	5.8
	3	26	21.0	21.7	27.5
	4	58	46.8	48.3	75.8
	5	29	23.4	24.2	100.0
	Total	120	96.8	100.0	
Total		120	100.0		

Independence 2(Investigative independence influence fraud detection effort)

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	2	5	4.0	4.2	4.2
	3	18	14.5	15.0	19.2
	4	69	55.6	57.5	76.7
	5	28	22.6	23.3	100.0
	Total	120	96.8	100.0	
Total		120	100.0		

Independence 3(Reporting independence influence fraud detection effort)

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	2	4	3.2	3.3	3.3
	3	12	9.7	10.0	13.3
	4	85	68.5	70.8	84.2
	5	19	15.3	15.8	100.0
	Total	120	96.8	100.0	
Total		120	100.0		

Dependent Variables: Frequency Distribution Analysis

AEPFD 1(auditor is required to 'possess the knowledge, skills, and other competencies to perform their individual responsibilities')

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1	2	1.6	1.7	1.7
	2	5	4.0	4.2	5.8
	3	5	4.0	4.2	10.0
	4	50	40.3	41.7	51.7
	5	58	46.8	48.3	100.0
	Total	120	96.8	100.0	
Total		120	100.0		

AEPFD2(the fraud detection task requires key, unique capabilities)

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1	2	1.6	1.7	1.7
	2	5	4.0	4.2	5.8
	3	5	4.0	4.2	10.0
	4	50	40.3	41.7	51.7
	5	58	46.8	48.3	100.0
	Total	120	96.8	100.0	
Total		120	100.0		

AEPFD 3(auditors should adopt to develop their knowledge of fraud and fraud detection)

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1	2	1.6	1.7	1.7
	2	2	1.6	1.7	3.3
	3	10	8.1	8.3	11.7
	4	48	38.7	40.0	51.7
	5	58	46.8	48.3	100.0
	Total	120	96.8	100.0	
Total		120	100.0		

AEPFD 4(expertise have higher effect on performance as fraud detection task complexity increases)

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1	2	1.6	1.7	1.7
	2	5	4.0	4.2	5.8
	3	5	4.0	4.2	10.0
	4	50	40.3	41.7	51.7
	5	58	46.8	48.3	100.0
	Total	120	96.8	100.0	
Total		120	100.0		

AEPFD 5(Auditors have characteristics of attention; simplify complexities, communication skills, confidence stress tolerance, and creativity.)

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1	2	1.6	1.7	1.7
	2	5	4.0	4.2	5.8
	3	5	4.0	4.2	10.0
	4	50	40.3	41.7	51.7
	5	58	46.8	48.3	100.0
	Total	120	96.8	100.0	
Total		120	100.0		

AEPFD 6(Auditor comprises the ability to exercise analytical reasoning, competency in technical skills, and competency in data analysis skills)

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1	2	1.6	1.7	1.7
	2	5	4.0	4.2	5.8
	3	5	4.0	4.2	10.0
	4	50	40.3	41.7	51.7
	5	58	46.8	48.3	100.0
	Total	120	96.8	100.0	
Total		120	100.0		

AEPFD 7(Auditors are being adaptive in their decision-making strategy; possessing the ability to identify relevant facts; being inquisitive about all aspects of an)

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1	2	1.6	1.7	1.7
	2	5	4.0	4.2	5.8
	3	5	4.0	4.2	10.0
	4	50	40.3	41.7	51.7
	5	58	46.8	48.3	100.0
	Total	120	96.8	100.0	
Total		120	100.0		

Appendix (D) Pearson Correlation

		AEPFD	CR	TR	ER	AS	IN
AEPFD	Correlation	1					
	Sig. (2-tailed)	-					
	N	120					
CR	Correlation	.461**	1				
	Sig. (2-tailed)	.000	-				
	N	120	120				
TR	Correlation	.602**	.486**	1			
	Sig. (2-tailed)	.000	.000	-			
	N	120	120	120			
ER	Correlation	.598**	.415**	.511**	1		
	Sig. (2-tailed)	.000	.000	.000	-		
	N	120	120	120	120		
AS	Correlation	.323**	.346**	.283**	.283**	1	
	Sig. (2-tailed)	.000	.000	.000	.000	-	
	N	120	120	120	120	120	
IN	Correlation	.392**	.430**	.321**	.402**	.218*	1
	Sig. (2-tailed)	.000	.000	.000	.000	.000	-
	N	114	114	114	114	114	114

**. Correlation is significant at the 0.01 level (2-tailed).

*. Correlation is significant at the 0.05 level (2-tailed).