



ADDIS ABABA UNIVERSITY
COLLEGE OF BUSINESS AND ECONOMICS

DETERMINANTS OF EXTERNAL AUDITORS' FEE:
(IN THE CASE OF BANKING AND INSURANCE INDUSTRIES
OF ETHIOPIA)

BY:

DAWIT ABERA KENO

THESIS SUBMITTED TO THE PARTIAL FULFILLMENTS OF THE
REQUIREMENT OF MASTERS OF BUSINESS ADMINISTRATIONS
IN FINANCE

ADDIS ABABA, ETHIOPIA

JANUARY, 2019

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DECLARATION

I hereby declare that this work entitled “ *Determinants of external auditors’ fee in the case of banking and insurance industries of Ethiopia* ” is my own work and that ,to the best of my knowledge and belief ,it contains no material previously published or written by another person nor material which has been accepted for the award of any other degree or diploma of the university or other institute of higher learning except where due acknowledgment has been made in the text

DAWIT ABERA

Candidates’ name

signature &date

ENDORSEMENT

This is certifying that the thesis entitled “the Determinants of External Auditors’ Fee in the case banking and insurance industries of Ethiopia” undertaken by Dawit Abera for partial fulfillment of Masters of Business Administration (MBA) in finance ,submitted to Addis Ababa University college of business and economics for Examination with my approval as a University Masters Student Advisor.

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Internal Examiner

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Abbreviation

GLS	Generalized least square
IFRS	international financial reporting standard
KSE	Kenya stock exchange
MOTI	ministry of trade and industry
MOR	ministry of revenue
NBE	national bank of Ethiopia
OLS	ordinary least square
ROA	return on asset
ROE	return on equity

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Abstract

The major objective of the study is to evaluate the Determinants of External Auditor Fee in banking and insurance industries of Ethiopia from 2012-2016 years. The research methodology is Quantitative research approach .this approach is used since it helps to conduct systematic empirical study of observable phenomena via statistical or mathematical techniques. , data was taken from NBE for which regressions was used to the analysis of study. The finding shows that aspect of corporate or clients sizes triggers 52 .3% positive change in the process of deciding its fee for the auditor while experience of the auditor triggers by 11.12% positive change in the decision of auditors fee through placing second as a determining factor . The finding shows that aspect of Auditor size is that it portrayed by 8.66% positively which is investigated as the strong relationship between audite size, and audit pricing, and determined that audit size is positively associated with audit fees and the clients expects higher quality audits from relatively experienced and large sized audit firms . The study found that an increase in market share of the audit firm leads on an average increase 3.99% increase in the revenue of the audit firm .The study found that an increase in the Client Profitability between 2012 and 2016 lead to a significant increase by 8.5 % in real audit fees. On the other hand, increase in the liquidity risk has a significant negativity indicated by 31.9% in real external audit fees .The negatively signed relationship between liquidity risk and Audit Fee shows that there is positive relationship between liquidity risk and Audit fee. The study shows increase of the Client Complexity significantly contributed to increase Auditor fee by 2.1%.similarly,however it was found insignificant with audit fee relation an increase Efficiency of the client is considered an important attribute that increase the determining amount of audit fees positively indicated by 7.67% in real audit fees. This implies that the efficient companies have the ability to bear additional charges for audit work due to their internal Efficiency. Therefore, Efficiency of the client has a positive correlation with the audit fees.

KEY WORDS; audit fee, client, audit firm ,auditee

CHAPTER ONE

1. Introductions

1.1. Backgrounds of the study

The demand for auditing as a control mechanism has increased even further as the world have been rattled by economic crises and scandals sparking a plea for stricter control and regulation of companies financial flow. Auditing can be viewed as a corporate governance function with the purpose of creating confidence in the financial statements issued towards stakeholders (Pentland, 2017) and to enhance the “credibility of the audited object” (Power, 2003, p.44).

Furthermore, Schilt & Perler (2010) state that auditing has an important role within the financial system, both as an assurance service and as a way to protect investors from opportunistic behavior. Instances where the auditor has failed to protect the investors and provide assurance has led to a lessened trust in auditing as a profession. For example, the appointed audit firm in the Enron scandal (Arthur Andersen) was disbanded as investors had lost faith in Arthur Andersen’s independence and capabilities.

Auditing is often blamed in the wake of large scandals, leading to a stricter regulation with the purpose of increased audit quality (Francis, 2005). Regulation of audit and accounting services, for example IFRS and ISA1, has tended to put an upward pressure on the pricing of audits as well as increasing the complexity of auditing (Kim, et al , 2012). It has also been suggested that increased regulation can affect the price of different goods and services of the audited company (Taylor & Simon, 1999).

In middle east countries most external audit fee charged is influenced by auditor dependent factors: auditor size, the reputation of the auditor, auditor experience, competition in the audit market, industry specialization of the auditor and big four status of the auditor. Audit fees is also determined by the audited company factors such as company size, complexity of operations of the company, audited firm risk, and the profitability of the audited firm (Sundgren & Svanström, 2013).

But, this is not mostly worked in most part of Africa specially east African countries due to this, amount of fees charged is often in contra with the audit fees perceived by the client. Hence, it is important to know how audit fees are priced differently and whether the fees are charged reasonably within the auditing industry (Nasseret, al., 2013).

For example, in Kenya, insurance bank and micro finance institutions evaluated Mohammad.et al ,(2013),by Audit fee determination is affected by Audit firm attributes or by the client's company characteristics which is the higher audit fees will be charged by big 4 audit firms, which are normally big in terms of staffing and geographical coverage, with high reputation gained from several years' experience and industry specialization.

In other hand Tanzania, Kenya and Uganda studied by (Fanora, & Omago, 2015),most of financial and business organizational external auditor fee is determining based on the Competition amongst audit firms is however expected to lower audit fees charged Big companies with risky operations and likely high profitability are charged relatively higher audit fees compared to smaller companies. On can concluded that the power structure of external auditor fee determinations is resulting based on company with a highly concentrated ownership financial value result in a different monitoring mechanism role then for a company with a less concentrated ownership.

1.1.1) Development and importance audit.

The current development of modern auditing process and profession is emanated from the development of economy and industries specifically In related with the emerging of industrial revolution in the 18th century and separation between owner ship and management agency problem created a demand for the practice of professional auditing process .In addition , the current development of globalization and development of stock markets all over the world are also the motivation for further strengthening of the audit profession (hayes et al ,2005)

According to gray and mason (2008) an audit is an investigation or search for an evidence to enable an opinion to be formed on truth and fairness of financial reports and other independent information by person or persons other than a preparer of the report in order to satisfy the need of the user of the report to increase the credibility and acceptance of the specific financial statement

among the users which was developed following the agency theory after the industrial revolution and creation of capital and wealth .and the creation of capital market as well creation of third party corporate governance ,investors are looking for the external body to oversee their wealth outside of their control ,due to the agency problem amongst the management of the company and the investors that they need the assurance and reliability for the safety of their investment .

1.1.2) Concept of Audit fee

Audit fees refers to the amount of fees received by auditors for their professional services based on such factors as the complexity of the services, the level of their experience ,their internal cost reputation they have and many other factors. According to Sukrisno Agoes (2012) audit fee as "the amount of the charge depends, among others, the risk of the assignment, the complexity of the services provided, the level of expertise required to carry out the services of proficiency level, the cost structure of the firm concerned and other professional considerations".

On the other side de Angelio (1981) defines audit fee as the amount of compensation for services performed by external auditors. The compensation for the services is related to the amount of time used to complete the work and the value of services provided to the client or the firm. DeAngelo (1981) states that the amount of cost of external audit, or the audit fee varies greatly. According to Al-Shammari et al. (in Fachriyah, 2011), the cost of external audits can also be interpreted and defined as a function of the amount of work done by auditors or the price per-hour and the level of service required. Hoitash et al. (2007) found that when auditors negotiate with management and the board regarding the audit fees paid related to their works, it is likely that there will be a clear reciprocal concession which would reduce the quality of the audited statements. Elder (2011) states that audit fee reflect the fair value of the works performed by auditors and particularly their audit

1.1.3) Factors Influencing audit fee

Audit fee is affected by the audit firm attributes and Client Company attributes, on the audit firm side the fee decision process can be affected by its firms size, experience, competition in the specific industry. And the client company attributes can be affected by clients size, complexity, risk, profitability and internal efficiency of the client.

Big sized audit firms which are highly staffed ,big in size having, high experience usually charges relatively high audit fee ,and those working in different industry and high competitive environment charges relatively low audit charge .

On the other side big companies with complex nature with high risk and highly profitable companies will be charged relatively high audit fee and simple structured companies with less risky and less profitable clients in the industry will be charged less audit service fees

1.1.4 Ethiopian audit environment

The Ethiopian audit and external auditors are regulated by the accountants and auditors board of Ethiopia(AABE) which was established according to proc no 847/2014 and regulation no 332/2014.this regulating body was intended to set standards ,of professional competence ,advising the ministry of finance on professional matters, record annuals reports of the corporation with high public interests, developing various code of conducts ,developing different ethical codes, according to the regulation part 31/a any auditor practicing in the country is expected to be registered in the board.

Currently they are more than 898 authorized accountants and more than 133 certified auditors in Ethiopia .in the other hand according to the commercial code of 1960 of Ethiopia the law imposed the legal enforcement to be audited on the companies of the nature of share company, corporation and public enterprises. according to the data from ministry of trade and industry (MOTI) there are 2524 share companies and related companies eligible for audit in these country as sene 30/2010 E.C but according to the data from Ethiopian ministry revenue (MOR) the companies submitted audited statement as of 30/10/210 E.C were 4314 this indicates in addition to share companies large private limited companies are also auditing their financial statements

1.2. Statement of the problem

The reason to this Statement of the problem of current study is to find out how external auditors determine the amount of fees required from their clients. The reason for undertaking this study is, there is little study done on the topic specially in developing countries like Ethiopia. The available literature in this area indicates that the most studies have been derived from developed world.. There had not been many studies conducted to find out the audit services pricing in Ethiopia and these few studies omitted to test some important determinants.

Because, auditing service price have been an important issue that concerned many researchers to have carried out researches by examining the types of determinants that affects the audit fees (Al-Harshani, 2008). Pricing of audit services has been an interesting issue for the researchers and different studies were conducted to explore the factors that determine the audit fee charged by an auditing firm. The knowledge of these factors is helpful both for client and the auditor. This leads to a better negotiation between client and auditor (Sundgren &Svanström, 2013).

In east Africa such as Musembi (2011) analyzed the relationship between audit fees and board characteristics among listed non-financial firms in Kenya. The study found that audit fee is positively correlated to the board characteristics (diligence, expertise and size). From above, most research has been done on developed countries while little published research is available on developing countries like Kenya. On the other hand kemili (2013) analyzed the factors determining audit fees arising from both client and audit firm characteristics by selecting the listed companies at the NSE(Nairobi stock exchange).

The recent studies in Ethiopia conducted by Tamrat (2014) and Getachew (2016)done on Audit Fee Determinants and Audit Quality in Ethiopian Commercial Bank and determinants of audit fee in Ethiopian private commercial banks respectively using different audit fee determinants like bank size, audit firm size, client profitability, liquidity risk, credit risk, operating risk, capital risk and audit quality. However, in his research paper, the researchers omitted some important determinants like, auditor experience, competition in the audit market, complexity and. And also Tmarat (2014) special focus was limited to Ethiopian commercial banks and also the scope of the study was also lilted to the banking sector only .Tamrat (2014) on his study included 6 private

and 2 state owned banks ,while Getachew studies 13 private commercial banks on the other hand the former used the secondary data and the later used primary data based on questionnaires.

In this study, the researcher adds the above omitted variables such as, auditor experience, competition in the audit market, complexity and Efficiency ratio. Furthermore, as there are lacks of studies conducted ,specifically on the audit fee determining factors in the Insurance industry in Ethiopia the researcher tried to broaden its scope to include the determinants affecting the external auditors to set their price of auditing the insurance industry ,on the process of broadening its scope, as the two industries share common characteristics they have also their own special industry characteristics, the purpose of this study is to reconcile this effect and to find the common denominator helping the auditor on setting his audit price for the banking and insurance industry, this study focuses on determinants of audit fee among banking and insurance industries in Ethiopia from 2012-2016 years of data. The reason for which we collected data from 2012-2016 is most of the banks and insurances were established after 2012 as well as most of the banks and insurances didn't report full financial statement of 2017 there for we focused on the data from 2012-2016 based on its completeness and availability.

The study also investigates whether the economic bond between the external auditor and bank and insurance client's common denominators which is leads to ex-simplifying the external audit quality by compromising auditor independence, using abnormal audit fees and level of earning management as proxies.

1.3. Research Objective

1.3.1 General of the study

The major objective of the study is to evaluate the Determinates of External Auditors' Fee in banking and insurance industries of Ethiopia from 2012-2016 years. As there is tight control on the financial sector of Ethiopia from the national bank as well as according to the financial sector proclamation no 592/1990E.C and 86/1994 E.C an individual person is not allowed to participate in the banking and insurance sector which enables the sector to be formed as a share company .which in turn is also obliged to be audited once in a year .according to the commercial code of the land .their for it is very crucial to know how the auditors are setting their service fee and what are the factors affecting auditors price which are specific to the industry

1.3.2. Specific Objective the study

- 1) To evaluate the auditor's side determinants effect on the process of setting the external auditor's fee in banking and insurance industries (.experience ,size, competition among auditors)
- 2) To evaluate the client side determinants effect on the process of setting the external auditor's fee in banking and insurance industries (.client size ,client profitability, clients liquidity risk clients complex nature, clients efficiency)

1.4. Hypothesis of the study

H1. **Corporate Size (company size)** has a positive and statistically significant relationship to the External audit fees charged.

H2. **The Auditor experience** has a positive and statistically significant relationship to the External audit fees charged.

H3. **Auditor size** has a positive and statistically significant relationship to the External audit fees charged.

H4. **Audit Market Competition** has a negative and statistically significant relationship to the External audit fees charged.

H5. **Client Profitability (client)** has a positive and statistically significant relationship to the External audit fees charged.

H6. **Liquidity Risk** has appositive and statistically significant relationship to the External audit fees charged.

H7. **Client Complexity** has a positive and statistically significant relationship to the External audit fees charged.

H8. **Efficiency ratio** has a positive and statistically significant relationship to the External audit fees charged.

1.5. Significance of the study

The determinants of external audit fees is useful for both audit firms, and (clients) banking and Insurance industries in Ethiopia. Knowing the determinants of audit fees related to the auditors and audit firms provide a practical knowledge to the auditors to consider these factors while setting their service fee and also it helps them to understand which variable is more important for the audit fee determination. On the other side by understanding the determinants of External audit fees, the clients can estimate the amount of audit fees that they are required to pay for the audit services in future, so that managerial arrangements can be carried out to reduce the costs of audit. This study enhances users or readers to obtain better understanding on the factors influencing External audit fees among listed financial institutions in Ethiopia currently. And also finally this research useful for other researchers who undertake study on External audit fee may have in use from this study or paper as one source of references. Due to this, the purpose of this study is to evaluate the determinants of external audit fee in Ethiopian insurance and bank industries which is to portray whether the ownership structure of a company increases the importance of these audit fee determinant. To more brief this issue let us discuss what is the nature of audit what is the meaning of audit fee and what are the factors influencing audit fee

1.6. Scope of the study

The scope of the study determined by the objective of the research which is stated earlier and it's emphasizes on identify and examining the determinants of external auditor fee. This research only analyzes determinants of audit fee in the external audit side. This research focuses on the determinants of audit fee in banking and insurance industries. Other sectors are excluded from this research. 18 banks and 16 insurance companies have been included in the sample. List of banking and insurance industries which have been considered for study is provided due to appropriateness of the study. Secondary, annual balanced panel data from Banking and insurance industries of Ethiopia taking 5 years (2012-2016) of data. The reason for which data collected from 2012-2016 is that some of the banks and insurances were established after 2012 as well as most of the banks and insurances didn't report full financial statement of 2017 there for we focused on the data from 2012-2016 based on its completeness and availability of the inclusive data .

The independent variables used in this study were **client size, client profitability, client complexity, liquidity risk, credit risk complexity Efficiency ratio. Audit firm size, Auditor experience, and competition in the audit market**

1.7. Organizations of the study

This chapter covers the statement of the problem along with the purpose of the study in which this report had introduced as well as the background of the study. The research questions have indicated the direction as well as the focus of this study, which will later outline the importance of this report and how it could benefit those that use this report.

Chapter two will discuss literature review in line with the research questions. Chapter three highlight research methodology that will be used in the study. Chapter four will look at the findings while chapter five highlights summary, discussions and recommendations.

1.8 limitation of the study

The study have covered the data from 2012-2016 and it depends on the secondary data data collected from the national bank of Ethiopia as secondary data is dependent o the data prepared by the third parties intention is quality id not effective as the primary data, and the time frame is 5 years and the observation is limited to include the recent data, and the diversification of the data is limited to the financial sector

CHAPTER TWO

2. Literature Review

2.1. Introduction

This Chapter begins with an analysis of theoretical framework that was used to support our research. Besides, in depth review of prior empirical studies on each variable was carried out. Furthermore, conceptual framework was identified.

2.1. Theoretical Foundation

Hayes et al., (2005) identified four theories of Auditing, which explain the existence of auditing; Policeman theory; Lending Credibility Theory; Inspired Confidence theory and Agency theory are mostly approved.

2.1.1. The Policeman Theory

This theory claims that the auditor is responsible for searching, discovering and preventing fraud. In the early 20th century this was certainly the case. However, more recently the main focus of auditors has been to provide reasonable assurance and verify the truth and fairness of the financial statements. The detection of fraud is, however, still a hot topic in the debate on the auditor's responsibilities, and typically after events where financial statement frauds have been revealed, the pressure increases on increasing the responsibilities of auditors in detecting fraud (Hayes et al. 2005).

2.1.2 The Lending Credibility Theory

This theory suggests that the primary function of the audit is to add credibility to the financial statements. In this view the service that the auditors are selling to the clients is credibility. Audited financial statements are seen to have elements that increase the financial statement users' confidence in the figures presented by the management (in the financial statement). The users are perceived to gain benefits from the increased credibility, these benefits are typically considered to be: that the quality of investment decisions improve when they are based on reliable information (Hayes et al. 2005).

2.1.3 The Theory of Inspired Confidence

Hayes et al., (2005) quotes by Sundgren & Svanström (2013) as pointing out that this theory addresses both the demand and the supply for audit services. The demand for audit services is the direct consequence of the participation of third parties (interested parties of a company) in the company. These parties demand accountability from the management, in return for their investments in the company. Accountability is realized through the issuance of periodic financial reports. However, since this information provided by the management may be biased, and outside parties have no direct means of monitoring, an audit is required to assure the reliability of this information. With regard to the supply of audit assurance, Hayes et al., (2005) suggests that the auditor should always strive to meet the public expectations.

2.1.4 Agency Theory

Watts and Zimmerman (1979, 1986a, 1986b) briefly explains that the external auditor is appointed in the interests of both the third parties (the investors) and the owners as well as the management. A company is viewed as a web of contracts. Several groups, stakeholders (suppliers, bankers, customers, employees etc.) make some kind of contribution to the company for a given price. The task of the management is to coordinate these groups and contracts and try to optimize them: low price for purchased supplies, high price for sold goods, low interest rates for loans, high share prices and low wages for employees.

In these relationships, management is the agent, which tries to gain contributions from principals (bankers, shareholders and employees). The most prominent and widely used audit theory is the agency theory.

2.2. The role of External Audit Services

Over the past twenty years, an important line of external auditing research has sought to understand the market for audit services by studying audit fees. The ball was set rolling by the seminal research carried out by Simunic in the early eighties. The latter argued that in order to test the competitiveness of the audit industry “it is necessary to develop a positive model of the process by which audit fees are determined” (Simunic, 1980: 161).

However, the factors relating to variation in external audit fees incorporated in the models previously developed raised an identification issue: were the authors observing the supply curve (the willingness of audit firms to supply individual audit services at different fee levels) or the demand curve (the demand by individual auditees for audit services at different fee levels

The same authors contend that this notion applies at best where an audit is a statutory requirement and the minimum standard of the audit is laid down by statutory and professional bodies and “thus demand is inelastic to the fee and mainly dependent upon the amount of work required, as determined by the size of the audited” Pong and Whittington (1994: page” 1074”)

Hayes et al., (2006: page “146”) summed it up by looking at the audit process from a production perspective whereby certain drivers are associated with variations in the level of audit fees as these drivers cause an auditor to perform more or less work during the course of the audit.

2.3. Determinates of External Auditor Fee

The Hayes et al., (2005) quotes by Sundgren & Svanström (2013) External audit fee determinants applied in this study based on three reasons; Accounting complexities, business complexities and assurance. Dividing the variables into these three groups will improve the study as the results generated from the empirical study can be analyzed according to its underlying characteristic. The following External audit fee determinants and the section is relatively measurement oriented by Hayes et al., (2005):

2.3.1. Client Size

A recent study of Wahab and Zain (2013) investigated firm size as the determinant of audit fees during initial engagement in Malaysia. Data were obtained from annual reports of 3,003 listed firms in Bursa Malaysia for the period from year 1996 to 2006. Panel regression analysis was employed in this study. The results showed that firm size and audit fees are significantly and positively related.

Another study conducted by Yacob (2013) used corporate size as a control variable of determinant of audit fees to investigate the association between the adoption of IFRS 139 and audit fees in Malaysia. Data extracted from the annual reports of 1,050 samples of non-financial

companies listed on Bursa Malaysia in year 2006 to 2008. Generalized Least Squares (GLS) regression was conducted in the study.

The results concluded that size is significantly and positively associated with audit fees. Naser, et al.(2013). Identified the association between audit fees and internal corporate governance effectiveness whereby firm size is used as a control variable of the study. Data were obtained from annual reports of 32 listed nonfinancial companies in Abu Dhabi Securities Exchange for the year 2012. Regression analysis was conducted in the study and the result showed that there is a significant and positive association between audit fees and corporate size.

Vermeer, et al (2009) proposed to provide empirical evidence about how firm size is associated with audit fees. 125 samples were selected from large non-profit organizations in United States. Data was obtained from each company's chief financial officer through questionnaire regarding audit and non-audit fees information as well as audit committees and internal auditing information in year 2001 and 2002. Regression analysis was conducted and the results showed that firm size is associated with audit fees.

Swanson (2008) attempted to determine whether larger companies are expected to pay more external audit price than smaller companies. Data were collected through the annual reports of 100 companies listed on Bursa Malaysia from the stock market's directory in year 2007. Ordinary least square regression (OLS) was used in this study. The findings revealed that there is a positive and significant relationship between audit fees and corporate size.

Simunic (1980) justified the positive relationship between client size and audit fee on the ground that the client stock of assets seems more closely related to risk than would an accounting flow measure, such as revenue, because defective financial statements which result in a lawsuit frequently involve some deficiency in asset valuation. External auditors tend to approach the audit process through the ending balance sheet, relying on the fact that verification of balance sheet components indirectly verifies reported income. Therefore, as the size of the client company increase, the required level of sample which comprise the assets will also increase.

2.3.2. Client Complexity

The common indicator of audited firm complexity is number of subsidiaries and branches (both local and foreign) of the client company, proportion of foreign subsidiaries, the number of industries in which the company participates, the number of different company locations and variables relating to asset composition, receivables to total assets, inventories to total assets, both of them to total assets and number of industries in which the client operates and so on (Simunic, 1980).

Highly diversified firms and companies with many subsidiaries have complex operations requiring comprehensive auditing by the auditor. Consequently, high audit fees will be charged by auditors for complex clients. This was confirmed by a study by Swanson (2008) which found that firms with complex operations pay high fees for audits. Foreign subsidiaries have to adhere to several laws and disclosure requirements, which requires more manpower and time by the auditors to conduct their audit. There is a positive relationship between audited firm complexity and audit fees charged by the auditors.

Joshi et al, (2000) supported the claim that complexity of business has a positive relationship with audit fee, that is, diversified business with foreign operations leads to complex audit process. If organizations have more subsidiaries, then it requires more complex audit work leading to firms charging higher audit fees.

Sandra et al; (1996 page "136") stated that "auditors of group companies, with a number of subsidiaries or branches, often incurs high costs in examining the individual financial statements and in assessing the accuracy of consolidated financial statements as these statements have to comply with a variety statutory and professional requirement for disclosure and thus this entails additional audit testing". This implies that the companies directly proportional to rigorous audit work hence higher audit fee

However, Firth (1985) found that the number of subsidiaries and the scope can be used as a measurement to determine the audit fees. Many studies conclude that complexity in terms of number of subsidiaries has a significant influence on the level of the audit fee

2.3.3. Liquidity risk

It is the risk that bank is unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. The result may be the failure to meet obligations to repay depositors and fulfill commitments to lend. Large numbers of demand and saving deposit accounts make operation of banks to be complex and lead to higher cost of operation in form of branch networks and associated cost of human and material resources. Banks with higher proportion of current and savings deposits account have lower liquidity risk however, have greater operational complexity. Consequently, they may pay lower or higher audit fees DeAngelo, L. (1981).

2.3.4. Client Profitability

Corporate profits are used to appraise the performance of the management in making efficient use of the resources allocated to them. Profits can be determined by looking at the reported figures in the financial statements (Sandra & Patrick, 1996; Naser at al. 2013). Companies reported high levels of profit would disclose more information to highlight their achievements and reduce agency costs (Watts & Zimmerman, 1986). Disclosing more information will be used by management of a profitable company to signal information about their performance to strengthen their position and justify their compensation (Hassan & Naser, 2013)).

These companies will be subjected to rigorous audit testing to verify and confirm their revenues and matching expenses (Joshi & Al-Bastaki, 2000). Hence, profitable companies would pay high audit fees. Profitability has been commonly measured by: Return on Equity (ROE); Return on Assets (ROA); Return on Investment (ROI); and Return on Capital Employed (ROCE). Client profitability levels influences the audit fees charged by auditors (Sandra & Patrick, 1996).

2.3.5. Auditor Size

Another variable under study is auditor size. The large ones, known as Big four firms, have become consolidated in the market and have international recognition. Al-Harshani (2008) analyzed the relationship between the size of the auditor, quality of audits and corresponding fees. They established that large audit firms charge a premium for their high-quality audits.

Big audit firms charge high audit fees (Francis 2004). Therefore, auditor size is correlated positively to the audit fees charged Siddiqui et al. (2013). Similarly, studies have shown that there is positive relationship between auditor size and the quality of its services Nasseret al(2013). Auditor size can be determined the total no of employees of the audit firm. This is to say, large audit firms with higher financial independence puts them at a less susceptible position in relation to client pressures. This fact adds to a greater insight of audit quality.

2.3.6. Auditors experience

Auditors Experience is the most important variable to decide the amount of audit fee ,according to (ferguson 2003) is an experience ,it is the most important capital in all professions ,experience is measured by the no of years ,the audit firm involved in the sector as well as the number of job the audit firm performed (auditor experience and audit fee has positive relationship) the more the auditor have an experience the more the audit fee to be incurred by it, in addition technical capability seems to increase the auditor's remuneration: the level of education, the working experience and the certification type of the auditor are found to be positively associated with hourly fee rates. Hence, the results suggesting that both size and technical capability have a positive impact on auditor remuneration. To become the better performer auditor, the professional crier and the past accumulated practical experience of an auditor has its own contribution .

DeAngelo (1981) propounded the experience as a rationale theory for audit quality. In her work, she proxy auditor experience using years of professional service ,audit firm experience and size and strongly asserted that the big and long serving audit firms have more to lose if they go ahead to supply audits of low quality. In Klein and Leffler (1981), a model for endogenous quality was formulated and was used to investigate firm audit quality. They assert in their findings that experienced firms provide high quality because they want to maintain their reputation developed through time an of quasi-rents that they want to sustain and fear of losing should they fall into the temptation to cheat and thereby provide audit report of low quality. The experience of the audit firm is considered an important attribute that influence

On the other side kemili (2003) of Kenya states that that the auditors experience is determining the amount of audit fees. A study by Ferguson, et al. (2003) reveal that years of professional experience of the audit firm would increase the audit fees charged by the audit firm (Ferguson, et al., 2003).

In other words, audit firms with long experience have affiliation with high quality because of the stream of income connected with the audit fee they charge based on reputation they get due to their long professional practice and would do all within their power to maintain it. Klein and Leffler (1981) to include a multi-period setting where there is free entry and in which experience is an entry cost. In his summation, either firms would receive a price premium because of the motivation to produce quality audit or because of cost they incur to maintain their reputation.

Bedard, et al (2010) investigated the relationship between auditors' experience and IPOs. Using a two-way classification to proxy reputation made up of either Big Eight or Non-Big Eight and the compensation received on the marginal cost of performing the audit, it was discovered that there is an inverse relation between auditor experience and initial public offering initial returns.

Specifically, the low initial returns are a resultant effect of the perceived audit quality associated with the experience of the audit firm. Furthermore, he argues that auditing firms that have spent more on reputation capital from their long service and have a higher motivation to reduce errors and mistakes thus; any information disclosed in the financial statement as audited by these firms is expected to have a higher audit quality.

Stice, J.D. (1991) developed a model where financial auditors with identical technology were divided into two: one with a known and experienced and the others lacked this feature. They discovered amongst other things that experienced audit firms charge higher fees and have economic rents as a result of their perceived experience. in Ethiopian for instance the three G's Getachew kassaye, Getachew, binalfew and Getachew, waqjira are known for their long experience and many companies expect the quality audit from these companies (own experience)

2.3.7. Audit Market Competition

Increased competition within the external audit market and the recent phenomenon of audit tendering has renewed interest in the factors influencing auditor changes. In Gregory and Jeanes (2007), elicited perceptions of the factors which influence auditor–client realignments in this new environment and to indicate the relative influence of economic and behavioral factors. Positive, statistically significant associations were found between unsolicited approaches and the consideration of either a change in auditor or the conduct of a competitive tender. Fees are both the most frequently cited reason for considering auditor change and the most frequently cited factor influencing the selection of a new auditor.

The chemistry of the relationship with senior audit firm personnel was ranked as more important than service issues in new auditor selection. Several significant associations between the reasons for change and both company size and type of change are identified. In Al-Harshani (2008) studied smaller companies, and companies changing from a non-Big Six firm, were more likely to change due to the need for a wider range of services and the influence of third parties. Findings indicated that 55% of auditor changes were affected by means of a tender, with the incumbent auditor having only an 18% chance of retaining the client. The various stages of the tender process appear to be dominated by the finance director, with audit committees having a restricted role. Tenders resulted in significant fee reductions in the year of change.

2.3.8. Efficiency ratios

This factor is a special and mostly used performance measurement adopted in the financial sector, to measure how efficiently the banks and insurances are utilizing their resource and how efficiently they are using their internal effort towards generating revenue and it is expenses/revenue excluding interest expenses ,as it is a quick and easy measurement of banks and insurances ability to return ,resources in revenue ,the lower the ratio the better. an increase in the efficiency ratio indicates either increasing costs or decreasing revenues. Increased competition within the external audit market and the recent phenomenon of audit tendering has renewed interest in the factors influencing auditor changes in Banking and insurance industries to use its assets and manage its liabilities effectively (Kim, et, al., 2012).

Although there are several efficiency ratios, they are all similar in that they measure the time it takes to generate cash or income from a client or liquidating inventory. Efficiency ratios include the inventory turnover ratio, asset turnover ratio, and receivables turnover ratio (Sundgren & Svanström, 2013). But in our study we used the simplest measurement expenses/revenue. These ratios measure how efficiently a company uses its assets to generate revenues and its ability to manage those assets which is the larger it pays for external auditor. According to Hayeset, al. (2005) remarked on any of financial ratio, it's best to compare a company's ratio to its competitors in the same industry to be able to pay more to auditor.

2.4. Empirical literature

Mohammed et al. (2000) using the Malaysian listed Bursa annual report for companies from 1993-1995 reported positive and significant association. However, Al-Harshani, (2008) though returned a positive and significant relationship with respect to clients' size and complexity (using the total number of consolidated subsidiaries) but on the contrary also reported a negative but significant influence of auditee risk using debt ratio as a proxy.

On the financial scene, Al-Harshani, (2008) while studying the relationship between non-audit fees and audit fees controlled for client size and complexity and was reported to have also positively and statistically significant. Similarly, Akinpelu et al. (2013) conducted a cross-sectional analysis of 13 Nigerian banks for 2009 financial year. They reported positive and significant influence of client size, current saving deposits account ratio (use to proxy risk) and the number of consolidated subsidiaries while also having to cope with a negative and non-significant impact on the audit fee.

Tamirat (2014) study is focus on investigation of determinants of audit fee among eight banks as a sample from the year 2004 to 2012. As well as Getachew (2016) focused on the 13 private commercial banks, in this study the researcher. Tamrat (2014) state eight independent variables (Namely: Banks size, Auditor size, Banks profitability, Banks liquidity, Banks credit RISK, Banks management efficiency, Banks Capital adequacy, Banks earning management and independence) and Getachew (2016) (board characteristics ,audit committee ,audit complexity ,audit quality ,auditor size, audit risk, bank size) that affect audit fee. Finally, with regard to the determinants of audit fees bank size, liquidity, loan growth, efficiency, profitability, auditor size,

capital adequacy ratio is found to be the major factors influencing the variation in audit fees in the Ethiopian commercial banks. Credit risk proxies, asset quality (non-performing loans and net loan charge offs) and commercial loans indicates auditors do not seem to value banks credit risk exposure in audit fee determination.

Ali & Amiens (2011) examined whether auditors are employed as a monitoring mechanism to mitigate agency problems between controlling shareholders and minority shareholders (named Type II agency conflict). In a context of ownership concentration and poor investor protection, controlling shareholders can easily expropriate minority shareholders and profit from private benefits of control. However, they state that this agency conflict has been rarely studied, as the most commonly assumed agency conflict resides between managers and shareholders (Type I). Using an audit fees model derived from Simunic (1980), they studied the impact of type I and type II agency conflicts on audit fees in high vs. low investor protection countries. They then focused on two countries (Germany and France) providing a lower investor protection level, and two countries (the USA and UK) providing a higher investor protection level. The results show 1) a negative relation between audit fees and managerial shareholding, which is stronger for strong than for low investor protection countries; 2) a curvilinear (concave) relation between audit fees and controlling shareholding for low investor protection countries; 3) a lower Type II conflict in the strong investor protection countries. These results illustrate the mixed effects of the legal environment and both agency conflicts on audit fees the determinants of audit fees can be classified into two major headings : client attributes and auditor attributes. The client attributes have received much attention in previous studies. Those studies included the characteristics of size, complexity, risk, and profitability of the firm being audited in the models (El-Gammal,2012). Consistent with the theory on audit effort and litigation, audit fees tend to increase with an increase in the client's *size* (e.g. Simunic, 1980), *risk* (e.g. Stice, 1991), *complexity* (e.g., Hackenbrack & Knechel, 1997),and *profitability* (e.g., Hay, Knechel& Wong, 2006).However, audit company attributes are also considered important drivers of audit fees. Size, reputation, experience, competition, industry specialization and whether it is from the Big Four are aspects of the audit company attributes that influence audit fees. Also, many prior studies suggested that audit fees increase with the Auditfirm's *Size* (Francis, 1984; Palmrose, 1986), *reputation* (Larcker & Richardson, 2004, Gonthier & Schatt, 2007),*experience*, *industry specialization* (Pearson & Trompeter, 1994; Cullinan, 1998) and whether it is one of the *Big*

Four (Palmrose, 1986; Francis & Simon, 1987; Butterworth & Houghton, 1995). In addition, audit fees decrease with the increase in *competition*, the greater the number of competitors the lower the audit fees are charged. Currently, there are various published works on the relationship between audit fees and its determinants. Among them are discussed below: cost of auditing. The study is based on a sample of financial reports from large Danish companies from 2002 to 2008. Controlling for a number of general audit fee driving aspects, they find that overall, audit fees have not increased significantly for companies using IFRS rules. However, when combining IFRS with company size and complexity, they find that large and complex companies using IFRS pay a heavy audit fee premium compared to small and less complex companies that also use IFRS. The results for non-audit fees are less conclusive.

2.5. Conceptual framework

The major objective of this panel study is to investigate the impact of factors that are believed to influence banking and insurance industries' audit fee, from prior studies that affect audit fees in the audit of banking and industries of Ethiopia using different risk, complexity financial factors peculiar to the banking and insurance industry and other factors which are found to influence audit fees in prior studies. The study concerned to assess factors that external auditors consider in pricing their audit fee in performing audit service in the banking and insurance industry of Ethiopia. The study assesses whether the audit fee is influenced by client size, client complexity, client profitability, client efficiency, client liquidity risk, auditors experience, auditor size and market competition.

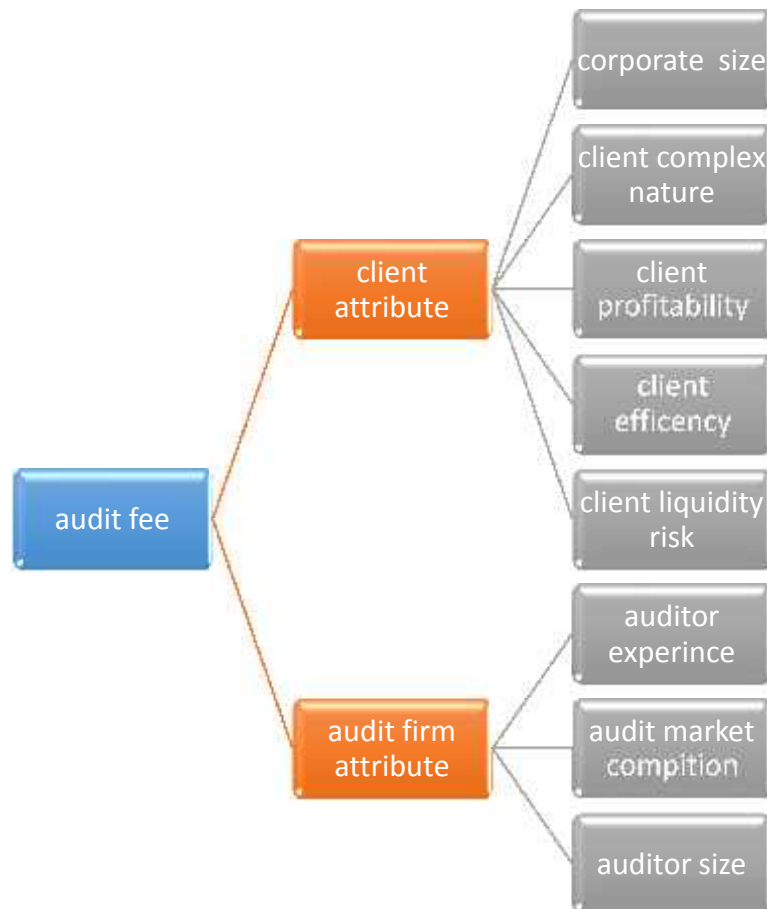


Figure 2.5 conceptual frame work Using Mays et.al., (2005), developed 2018.

2.6 Summary of Literature Review

From the empirical and theoretical review done it is understood that most of the studies were done in developed countries, while there is limited literature of emerging economies were found . In this study the researcher sought to find out the determinants of audit fees in Ethiopia specifically in the sector of banking and insurance for both client based and audit firm factors. this is due to the lack of abundant information regarding this issue, even though plenty of studies investigated the determinants of audit fees and the economic bonds between auditors and client firms ,in different countries especially in the developed world ,there a lack of empirical evidence from the developing countries context like Ethiopia. Only a limited studies had been conducted in the area from developing countries. As far as the researcher is concerned researches done in the countries like Nigeria, Lebanon, Kenya, south Africa ,Ghana, Jordan were very useful in giving insight for both audit firms and client companies as how audit firms charge audit fees .the result from the study will help regulatory and professional associations as well as concerned bodies to properly monitor the external audit profession to maintain trust among the various stake holders .therefore it would be much worth to ask what factors the external auditors consider in determining the audit fee for their clients in Ethiopia. Do auditors consider factors considered important by the regulatory agencies ?Does the economic bond between the auditor and the client company ,have any impact on the audit fee ? this paper is aimed to speak directly to such issues using companies acting in the Ethiopian financial sector .

CHAPTER THREE

3. Research design and Methodology

The purpose of this chapter is to present the research approach adopted by the researcher. The first part presents the model specifications to be tested. The second part presents the study design used for the research. Target population and sample present in the third part and the final part discussed the method used for data collection, analysis and presentation.

3.1. Study Design

Quantitative research approach is used since it helps to conduct systematic empirical study of observable phenomena via statistical or mathematical techniques (Creswell, 2009). The objective of quantitative research is to develop and employ mathematical models, theories and hypotheses pertaining to phenomena. The process of measurement is central to quantitative research because it provides the fundamental connection between empirical observation and mathematical expression of quantitative relationships. Quantitative research is generally made using scientific methods, which can include: The generation of models, theories & hypotheses, the development of instruments and methods for measurement control and manipulation of variables, Collection of empirical data and Modeling and analysis of data.

This study follows a deductive reasoning in describing the event. By applying the selected theory to explain the event, event characteristics will serve as empirical facts supporting the validity of the theory. Deduction is also the most commonly used research approach in combination with positivism (Sutrisna, 2009). However, it is believed the study is purely deductive as part of the research purpose was to figure out the Determinants of External Auditor Fee in banking and insurance industries of Ethiopia from 2012-2016 years.

A quantitative strategy is best suited as the research has a large focus on numbers and the use of hypothesis and statistical tools to analyze them. The knowledge that is sought-after has to be measured in order to answer the research problem and the knowledge gap. In this study, this approach enabled to see the determinants of External Auditor Fee indicators. Thus, this enabled to test the theory in the context of Ethiopia.

3.2. Target Population and Sample

I. Population

The target population in this study covers from Ethiopian banks and insurance industries that are apprehended in the country during the sample period (i.e., 2012 to 2016).

II. Sample

The researcher needs to have a large sample size in order to get more accurate results and have a high likelihood of detecting a true result. The study sample size is 18 Ethiopian banks and 16 insurance industries that are apprehended in the country during the sample period (i.e., 2012 to 2016).

Thus the research used Purposive sampling (non probability) method. Besides, since the number of banks in the country is small and due to the data nature (panel data), the sample should contain banks and insurances that have longer period so as to get sufficient observation.

3.3. Data Collection instrument

To comply with the research objectives, the researcher focused on secondary data, which are obtained from financial statement of individual bank and insurance companies and their respective external auditors as well as financial publication of NBE for the clarity and avoidance of the data missing, In order to increase the credibility and reliability of the research findings the study use audited financial statements (balance sheet and income statement) of each banks.

And this is because the advantage of using secondary data includes the higher quality data compared with primary data collected by researchers themselves; the feasibility to conduct panel evidence, which is the case in this study; and the permanence of data, which means secondary data generally provide a source of data that is both permanent and available in a form that may be checked relatively easily by others.

3.4. Data and Analysis

A description of data preparation processes such as checking, editing, coding, and transcribing as well as specifying any special or unusual treatments of data were properly done before they are analyzed. To get a robust result, the model has to be free from any econometric problems such as multicollinearity, Heteroskedasticity, autocorrelation, and must make sure the error term for each variable is stationary. This part of study is dedicated to describe the said econometric problem.

Data analysis: After the data collected and cleared, the panel data were analyzed using descriptive statistics, correlations coefficient and multiple linear regression analysis are done. According to El-Gammal (2012), descriptive analysis was conducted by using means, standard deviation and Mann-Whitney U test.

Besides, according to Mohammad et al. (2013), descriptive analysis about continuous variables was conducted by using mean, median and standard deviation, whereas discontinuous variables were using frequency and percentage. The researcher also used to analyze the general trends of the data from 2012 to 2016 based on the sample of 18 bank and 16 insurances.

Correlation matrix was used to examine the relationship between the dependent and explanatory variables. A fixed determinations multiple, linear regression model with ordinary least square (OLS) estimator was conducted using eviews9 econometric software package, to test the casual relationship between external auditor fee and explanatory variables.

Data was presented in a way that users or readers can easily understand and interpret. Particularly for the first objective the study was used tabular presentation of data. That means the results of distress measurement and regression output was discussed in chapter four.

3.4. Model Specification

Based on the discussion, theoretical and empirical, that had in the previous chapter, the study come up with the following model, variables that tested to meet the research objectives, identifying the determinants of banking and insurance distress.

In order to decide between fixed effect and random effects regression model, the study carried out the Housman test. Since the p-value was insignificant at 5% level of significance random

effect was selected. Further test was also conducted to choose between random effect versus pooled Mays model by using Breush and pagan Lagrangian, (2014) multiplier test and the result showed that pooled OLS is fitted for the study since the P-value was insignificant at 5% level of confidence. It is also useful in terms of predicting the effects of a set of predictors on External audit fees within a time period Saunders et, al., (2012) remarked the equation is described as below: Therefore, model for the study was specified as follows:

$$\ln(\text{ADFEE}) = \beta_0 + \beta_1(\text{CrS}) + \beta_2(\text{AUEXP}) + \beta_3(\text{AS.}) + \beta_4(\text{AMCo}) + \beta_5(\text{CR}) + \beta_6(\text{Comp}) + \beta_7(\text{AS}) + \beta_8(\text{Effr}) + \epsilon_i$$

Whereas: ϵ_i = Error term (assumed to be independent and identically distributed across banking and insurance industries and over time) $\beta_0 - \beta_9$ = Regression coefficients:

<i>Dependent Variable</i>	<i>Symbol</i>	<i>Measurement</i>
<i>Audit fees</i>	<i>Ln(EAF)</i>	<i>Natural log of the total External audit fees</i>
Corporate size	(CrS)	Natural log of the total gross Asset(+)
The Auditor experience	(AUEXP)	No of years of practice of the auditor (+)
Auditor size	(AS)	no of auditors employed in the audit firm (+)
Audit Market Competition	(AMCo)	market share % in the specific audit market(+)
Liquidity risk (CR)		Current Ratio=Current asset/current liability(-)
Complexity	(Comp.)	no of branches (+)
Profitability	(ROA)	Net Income/total Asset(+)
Efficiency Ratio	(EffR)	Total expense/Total revenue(+)

Mays et,el., (2015) and (Tonidandel & LeBreton, 2011).

Qualitative data was condensed by editing, paraphrasing and summarizing in order to derive meaning from it. Using the content analysis technique, the data was coded and thereafter put into theme categories and tallied in terms of the number of times it occurs. Data was then tabulated into respective themes. This process according to Frankel & Wallen (2000) involves reading through the questionnaires, transcripts and other sources of data, developing codes, coding the data, and drawing connections between the various discrete pieces of data.

CHAPTER FOUR

4. Data Analysis, Interpretations and Presentations

In the previous chapter detail insight was given concerning the research methodology followed in this study, this chapter presents the results of documentary reviews and the different tests made to ascertain the fulfillment of classical linear regression model assumptions.

4.1. Descriptive Statistics of the Data

Table 1, below shows summary of descriptive statistics intended to give general descriptions about the dependent and the independent variables. The total number of observations for each variable is 170 (i.e., data for 18 banks and 16 insurances for five years (2012 – 2016)).

Variable	Obs	Mean	Std. Dev.	Min	Max
Adfee	170	160.195422	1.6988036	22.3083	563.4517
Corporate Size	170	543.4748046	.1028228	18.0975	2567.6912
Auditor experience	170	13.6110385	.2396401	4.4052	35.8042
Auditor Size	170	13.2216923	.0822475	8.0155	20.3878
Audit Market Competition	170	.21646	.1691095	.13968	.4857
Client Profitability	170	.1058154	.0089563	.087	.121
Liquidity Risk	170	.34402	.91121	.2240	.638
Client Complexity	170	.1897846	.1010975	.7708	.3640
Efficiency	170	.5321613	.1691095	.13968	.73857

***Source from researcher financial survey data, 2018

From above table 1; regarding to the Five Years Under Review by the Summary of Descriptive Statistics of Study the external auditors of the Ethiopian banks and insurance earned a total of 18 million birr and Audit Firms average earned is 160.195422 in thousand birr per year from 2012-2016. In the same term of external auditor annually from 22.3083 minimum value to 563.4517 in thousand maximums in average a year in ET birr at standard deviations of 1.6988036. The standard deviation of audit fees is 1.6988036 indicating high variation in audit fees charged.

Descriptive statistics regarding Corporate Size, actual mean difference of is 543.4748046 at standard deviations of 1028228. minimum of corporate size is 18.0975 and the maximum variance of corporate size is 2567.6912. corporate size was found to be the most important factor that influences audit fees; it is usually measured by total assets, revenues, sales and numbers of branch and corporate branch of the Client Firm. The size of corporate has a direct impact on the auditors' work, and the time spent in the auditing process. Larger clients require more audit services than smaller clients, therefore more audit time is needed; hence we would expect that these large clients pay higher fees per birr of size corporate relative to smaller clients in the industry.

H1. Corporate Size (company size) has a positive and statistically significant relationship to the External audit fees charged.

On the other hand, Auditor experience indicated in average mean of experience is 13.6110385 at standard deviations of .2396401 which is the minimum practical experience is 4.4052 year and maximum experience shows 35.8042 practical years experience. As it is widely expected the auditee's confidence on quality is mainly dependent on the experience. and the experience of the audit firm is very important in the areas of auditor responsibility for fraud prevention and detection, maintenance of accounting records, freedom of the entity from fraud, and auditor judgment in the selection of audit procedures which can be addressed by more extensive audit reporting (long-form) which requires more audit work and as a result high audit fees will be charged to bridge the gap. this all will be done from the previous experience accumulated by the auditor, more over audit quality will be developed through time and through the technique developed by the auditor based on the long experience

H2. The Auditor experience has a positive and statistically significant relationship to the External audit fees charged.

Auditor size as common denominator will be frequently measured based on the number of staff of the audit firm and the number of employees at mean difference of 13.2216923. It investigated the relationship between auditor size, and audit pricing is very strong, and determined that auditor size is positively associated with audit quality, and that large offices charge higher audit fees and provide higher quality audits which is the strong relationship between auditor fees and audit company size. In auditor per client at standard deviations of .0822475 which is minimum of auditor's size by 8.0155 and maximum of auditor size by 20.3878.

H3. Auditor size has a positive and statistically significant relationship to the External audit fees charged.

Concerning the Competition among the audit firms the researcher computed it based on the auditors market share on the specific banking and insurance industry between audit firms, and this can be considered as one of the factors affecting the audit service pricing in average mean difference is 21.646% this is consistent with the study that was done earlier, it was found that an increase in the number of Audit firms between 2012 and 2016 lead to a significant decrease in real audit fees at standard deviations of .1691095 minimum market share 13.968% maximum of auditor's Market Competition 48.57% market share.

H4. Audit Market Competition has a negative and statistically significant relationship to the External audit fees charged

Client Profitability in average mean difference is .1058154 at standard deviations of .0089563 minimums of client profit ratio .087 and maximum ratio is .121. Client's firm profitability is considered as an important indicator of management performance also its efficiency in allocating available resources. The auditee profitability can be known by good indicating of the income or loss figure shown in the income statement (Firth, 1985)

H5. Client Profitability (client) has a positive and statistically significant relationship to the External audit fees charged.

Liquidity Risk in average mean difference is .34402 at standard deviations of .91121 which is minimum of liquidity risk is .2240 and maximum Liquidity Risk ratio is 0.638. The most preferred risk measure is the Debt ratio as defined as the percentage of long-term debt to total assets is 34.4%. It measures the company's ability to pay off its incurred liquid debt. It shows Liquidity Risk is relatively high, the long-term financial structure of the client's firm will be unstable, and the firm may not be able to pay off its debt in a proper behavior which may lead to a lower credit rating.

H6 Liquidity Risk has a positive and statistically significant relationship to the External audit fees charged.

Client Complexity this variable is measured as Joshi et al (2000) cited the natural logarithm of subsidiaries and branches / standard deviations of audit fee t-1 and average mean difference is 18% at standard deviations of .1010975. Minimum client complexity .17708, maximum of client complexity 36.40%. Complexity of the auditee can be measured average mean difference is 18% of number of branches and subsidiaries of the firm. It is argued that the more complex the client firm is, the greater the number and the more diversified the subsidiaries and operations are if 10% and above (Sandra and Patrick (1996); which necessitate more audit work; therefore, audit firms charge higher audit fees.

Because the highly complex firms often would be charged high audit fees in examining and evaluating the firm's financial statements. According to this concept, companies with foreign subsidiaries have to abide by a variety of legislative and proficient requirements for disclosure, which necessitates further audit testing, requiring more time and additional manpower to complete the audit process. This implies that the companies have to bear additional charges for audit work.

H7. Client Complexity has a positive and statistically significant relationship to the External audit fees charged.

Efficiency in the audit firm is considered an important attribute that influence determining the amount of audit fees which is revealing in banking and insurance industries that years of professional experience of the audit firm would increase the audit fees charged by the audit firm is average mean difference of Efficiency ratio is 53% at standard deviations of 16.91095 which is minimum of client Efficiency ratio at 13.9% and maximum client efficiency ratio is 73.8%. The results of this study were consistent with those of Hay et al. (2005) study which stated that the degree of Efficiency in the audit firm between audit firms for market share is an important determinant of audit fees and is directly proportional to audit fees.

H8. Efficiency ratio has a positive and statistically significant relationship to the External audit fees charged.

4.2. Tests for the Classical Linear Regression Model (CLRM) Assumptions

A. Normality Assumption

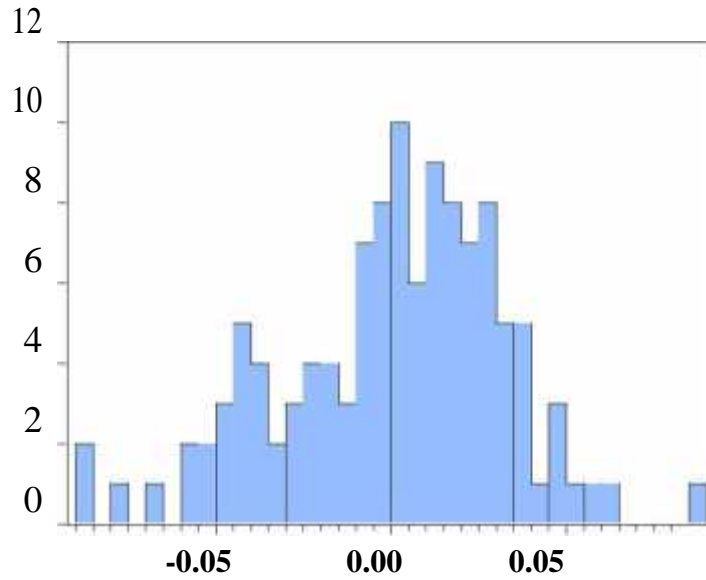
If the residuals are normally distributed, the histogram should be bell-shaped and the Bera-Jarque statistic would not be significant, meaning disturbance to be normally distributed around the mean. This means that the p -value given at the bottom of the normality test screen should be bigger than 0.05 to not reject the null of normality at the 5% level (Brooks, 2008).

Ho: Normally distributed errors

Ha: Non-Normal Distribution error

Therefore, the normality tests for this study as shown in table below, the Bera-Jarque statistic has a P-value of 0.184 implies that the p -value for the Jarque-Bera test for models is greater than 0.05 which indicates that the errors are normally distributed. Based on the statistical result, the study failed to reject the null hypothesis of normality at the 5% significance level.

Figure 4.1: Normality Test for Residuals



SERIES:	Standardized Residuals
Sample:	2012- 2016
Observations	170
Mean	-10.67e-18
Median	0.003725
Maximum	0.079914
Minimum	-0.077369
Std. Dev.	0.032121
Skewness	-0.319287
Kurtosis	3.093339
Jarque-Bera	3.667590
Probability	0.184275

***Source from researcher financial survey data, (2018)

B. Homoscedasticity Assumption (variance of the errors is constant)

According to Brooks, (2008) it has been assumed that the variance of the errors is constant, 2 - this is known as the assumption of homoscedasticity. If the errors do not have a constant variance, they are said to be heteroscedastic. To test for the presence of heteroscedasticity, the popular white test was employed.

It is hypothesized that as follows

Ho: There is no heteroskedaticity problem (homoskedasticity)

Ha: There is heteroskedaticity

Table 2: Heteroskedasticity Test: White

F-STATISTIC	3051.493021	PROB. F (44,72)	0.9935
OBS*R-SQUARED	20.08928	Prob. Chi-Square(30)	0.9789
SCALED EXPLAINED SS	22.28082	Prob. Ch-Square(44)	0.9985

*****Source from researcher financial survey data, 2018**

According to Brook, (2008) indicated that if the P-values of these test statistics are considerably in excess of 0.05, then the test give conclusion that there is no evidence for the presence of hetro-scedasticity. It is clear evident that the errors are homoscedastic. Therefore, based on this statistic we fail to reject the null hypothesis that is indicated as there is no Heteroscedasticity for the models.

C. Test for Assumption of Autocorrelation

It is assumed that the errors term is uncorrelated with one another. If the errors are not uncorrelated with one another, it would be stated that they are auto correlated. This is an assumption that the errors are linearly independent of one another (uncorrelated with one another). The simplest test is due to Durbin and Watson (Brook, 2008).

Table 3: Autocorrelation test

Variables	DW Test Statistics Result
All Specific And Macroeconomic Factors	1.71

*****Source from researcher financial survey data, 2018**

To test this assumption, the DW stat value in the main regression table should be considered.

The Durbin-Watson test statistic value in the regression result was 1.71. To identify determinants of 18 Ethiopian banking and 16 insurances industries External auditor Fee, 170 (34*13) observations were used in the model.

Therefore, to test for autocorrelation, the DW test critical values were used. Then relevant critical lower and upper values for the test are $dL = 1.421$ and $dU = 1.670$ respectively. The values of $4 - dU = 4 - 1.670 = 2.33$; $4 - dL = 4 - 1.421 = 2.579$.

The Durbin-Watson test statistic of 1.71 is clearly between the upper limit (dU) which is 1.670 and the critical value of $4 - dU$ i.e. 2.33 and thus, the null hypothesis of no autocorrelation is within the non- rejection region of the number line and thus there is no evidence for the presence of autocorrelation.

Table 4: Multicollinearity test

VARIABLE'S	LN(AF)	CS	AUEXP	ROA	EFF	AS	AMCo	LR	CC	LNAs.
Audit Fees	1									
Corporate Size	-0.26	1								
Auditor experience	0.397	-0.1997	1							
Profitability	0.023	-0.0708	-0.1441	1						
Efficiency	-0.29	-0.0061	0.513	-0.0037	1					
Auditor Size	-0.74	0.1674	0.2897	-0.056	0.26241	1				
Audit Market Competition	-0.31	-0.221	0.2638	-0.112	0.20072	0.3606	1			
Liquidity Risk	0.573	0.1404	-0.8298	0.1112	-0.552	-0.412	-0.474	1		
Client Complexity	0.162	0.312	0.451	0.345	0.417	0.4145	0.4762	0.1721	1	
Gross Asset	0.4645	0.2057	0.2341	0.314	0.1713	0.3317	0.4125	0.451	0.4312	1

*****Source from researcher financial survey data, 2018**

D. Multicollinearity Test

An implicit assumption that is made when using the panel OLS estimation method is that the explanatory variables (independent variable) are not correlated with one another.

If there is no relationship between the explanatory variables (independent variable), they would be said to be orthogonal to one another. If the explanatory variables were orthogonal to one another, adding or removing a variable from a regression equation would not cause the values of the coefficients on the other variables to change (Brook, 2008).

According to Gujarati, (2004) multicollinearity could only be a problem if the pair-wise correlation coefficient among regressors is above 0.90 Hailer et al, 2006 *cited in* Birhanu, (2012) which is not more or less the case in the study variables.

4.4. Results of the Regression Analysis

This section presents the regression result of Cross-section random effects that was made to examine the determinants of External Audit Fee in Banking and Insurance industries in Ethiopia. Accordingly, the regression result was made and coefficients of the variables were estimated via E-views 9.0 software package. As stated above, Cross-section random effects is an appropriate model used in this study. Thus, the model used to examine the determinants of Audit Fee in Insurance Companies in Ethiopia was:

This section presents the general regression results of fixed effect model that made to identify the Determinates of External Auditor Fee in banking and insurance industries of Ethiopia. Based on the information revealed on table 5 below, the research developed the following model:

$$\ln(\text{ADFEE}) = 0.694431a + 0.052376CS + 0.111282AUEXP + 0.0866409AS + 3.990006AMCo + 0.085164ROA - 0.319385LR + 0.0212CCo + 1.07671ER + i$$

R-square: R-square, measures the proportion of the total variation of the dependent variable that is explained by the variation of the explanatory variables.

Based on the regression result, the R^2 value is 0.692 (69.2 %) which implies that 69% of fitness can be observed in the sample regression line. This can be further explained as, 69% of the total variation in Audit Fee is explained by the independent variables (Corporate Size, auditor experience, Auditor size, Audit Market Competition, Client Profitability, Liquidity Risk, Client Complexity, Efficiency ratio) jointly.

Table 3. Regression Results the Determinates of External Auditor Fee in banking and insurance industries of Ethiopia

Variable	Coefficient	Std. Error	t-Statistic	sig
C	0.694431	0.279287	2.486444	0.000
Corporate Size	0.523706	0.029584	1.770387	0.001
Auditor experience	0.111282	0.105724	1.052566	0.000
Auditor size	0.086640	0.530318	1.633752	0.000
Audit Market	3.990006	0.000231	0.017279	0.000
Competition				
Client Profitability	0.085164	0.003097	1.66738	0.004
Liquidity Risk	-0.319385	0.093648	-3.410466	0.0051*
Client Complexity	0.0212	0.030696	-0.690636	0.000
Efficiency ratio	1.07671	0.442415	2.457377	0.0630**
R-squared	0.692794			
Adjusted R-squared	0.680459			
S.E. of regression	0.035309			
F-statistic	56.026141			
Prob(F-statistic)	0.0000			
DurbinWatsonstt	1.719863			
*Significant	levele of 1%			
**Significant	level of 10%			

***Source from researcher financial survey data, 2018

The remaining 31% of change is explained by other factors which are not included in the model. The Prob (F-statistic) value is 0.000 which indicates strong statistical significance, which enhanced the reliability and validity of the model. Each variable is described in detail under the following sections.

Discussion of the Results

From above table 5, the study used Regression analysis to analyze the findings, multiple linear regression analysis indicates the effect of group of the independent variables on the dependent variable, the results are discussed as follows

Result regarding to corporate size indicated in External Auditor Fee with a beta coefficient ($=0.52376$ and $p=0.001$) which shows the relation between asset size of industries in insurance and banking sector which triggers with the result at 5% significance level which the hypothesis is accepted. The finding shows that aspect of corporate size triggers by 52.3% in other words (52.3% the decision done by the auditor depends on the corporate size of the client) positively change in the company to increase the of auditor's fee, pushing the auditor to observe the corporate size in order to raise its fee. Therefore, the more the corporate size of the audited (client) company is becoming big the more the client company is in need of high level audit service and the more they are able to afford the incremental audit fee regarding the corporate size change This result is consistent with findings in earlier studies of Palmrose, 1986; Simon and Taylor, 2002; Simunic, 1980; Low et al., 1990; Chan et al., 1993 and Carson et al., 2004 which found appositive relationship between audit fees and client size.

Result regarding the experience of the auditor indicates, External Auditor Fee in (beta coefficient $=0.111282$ and $p=0.000$) which shows, on average increase experience of the auditor triggers (contributes) 11.12% increase in pricing decision of the external auditor to its service delivery. So this means that, the more the experience of the audit firm increase the more is the demand on its audit services, which is one of the most important factors affecting the audit service. experience of the audit firm is perceived by Insurance and banking industries as an assurance for the quality audit service, and it positively increase audit fee for the bank and insurance industries and experience of the auditor positively increase audit fee of the bank and insurance industries in the operational welfare at 5% significance level which is the hypothesis is accepted. This inconsistent with previous study of Ferguson, et al. 2003 who found that years of professional practice increases audit fees charged.

Result regarding to the Auditor size indicated in External Auditor Fee in (beta coefficient $=0.086640$ and $p=0.000$) which is an important aspect of the audit firm that determines the audit

fee which can be frequently measured based on the company's assets, market share or number of employees which are positively increases client fee of the bank and insurance industries at 5% significance level which is the hypothesis is accepted. The finding shows that aspect of Auditor size is that it portrayed by 8.66% positively which is investigated the strong relationship between auditor size, and audit pricing (each addition of employee to the staffing of the auditor contributes 8.66% increase in the decision of audit fee by the auditor), and determines that auditor size is positively associated with audit quality, and that large offices employing highly paid professionals and many number staff charge higher audit fees and provide higher quality audits of banking and insurance of Ethiopia. The related operational expenses of the auditor pushes the auditor to charge considerably higher fee. Therefore, studies have shown strong the positive relationship between auditor size and the audit fee.. This fact adds to a greater the audit size contribute 8.66% to determination of audit fee. At 5% significance level. And the hypothesis is accepted. This finding is consistent with Francis and Stokes (1984) and Palmrose (1986) explained the strong relationship between auditor fees and audit company size.

Result regarding to the Audit Market Competition indicated in External Auditor Fee portrayed that in (beta coefficient = 3.990006 and $p=0.000$) which is Competition among audit firms is considered as one of the factors affecting the audit service pricing, this is consistent with the study at 5% significance level which is the hypothesis is accepted. The study found that an increase in market share of the audit firm leads on an average increase 3.99% increase in the revenue of the audit firm. (on the other side The addition of one audit firm to the audit market reduces the audit fee of the auditor) The results of this study were consistent with those of Hay et al. (2006) study which stated that the degree of competition between audit firms for market share is an important determinant of audit fees and is inversely proportional to audit fees.

Result regarding to the Client Profitability measured in terms of Return on Asset (ROA which the analysis result shows, the coefficient of ROA is positively indicated to External Auditor Fee portrayed with (beta coefficient of = 0.085164 and $p=0.004$) it is an important indicator of management performance also and the efficiency of the management in allocating available resources which is known by finding the income or loss figure shown in the income statement, this is consistent with the study at 5% significance level and the hypothesis is accepted. The study found that an average increase in the Client Profitability between 2012 and 2016 lead to a

significant increase by 8.5 % in real audit .Most of the prior research done indicate that the amount of audit fees is significantly influenced by the profitability level of the client firm (Sandra and Patrick, 1996).These companies will be subject to rigorous audit testing to their revenues and expenses (Joshi & Al-Bastaki, 2000). Hence, profitable companies would pay high audit fees. Different variables were employed by previous researchers to represent profitability. Generally, the positive and significant relationship at 5% significance level between profitability and audit fees in the result leads to fail to reject this hypothesis.

Result regarding to the Liquidity Risk indicated in External Auditor Fee portrayed that in (beta coefficient = -0.319385 an $p= 0.0051$)which is Liquidity risk is measured or peroxide by Current Ratio (CR). Hence, the liquidity risk and Current Ratio are inversely related they are negatively correlated. This means, incremental CR shows low level of liquidity risk or vice versa., this is consistent with the study at 10% significance level in which we fail to reject the hypothesis The study found that an increase in the liquidity risk has significant positive effect by 31.9% in real audit fees. The negative relationship between CR (current ratio) and Audit Fee shows that there is inverse relationship between liquidity risk and Audit fee..The result shows the consistency with the findings of previous studies which found a positive relationship between liquidity risk and audit fees (Felix et al (2001)).

Result regarding to the Client Complexity indicated in External Auditor Fee portrayed that in (beta coefficient =0.0212 and $p=0.000$)which is measured by the number of branches and subsidiaries of banking and insurance industries locally .this is consistent with the study at 5% significance level which is the hypothesis is accepted .The study found that an on average an increase in the no of branches of the clients lead to a significantly increase Auditor fee by 2.1%.It is argued that the more complex the client firm is, the greater the number and the more diversified the subsidiaries and operations are; which necessitate more audit work; therefore, audit firms charge higher audit fees .Similarly, Sandra and Patrick (1996) showed that auditors of highly complex firms often charge high audit fees in examining and evaluating the firm's financial statements. According to them, foreign subsidiaries have to abide by a variety of legislative and proficient requirements for disclosure, which necessitates further audit testing, requiring more time and additional manpower to complete the audit process. This implies that the companies have to bear additional charges for audit work. Therefore, client complexity has a

positive correlation with the audit fees (Simunic, 1980; Low et al., 1990; Carson et al., 2004; Tamirat,2014).

Result regarding to the Efficiency ratio which is indicated in External Auditor Fee portrayed that in (beta coefficient =1.07671and p=0.0630) this is inconsistent and out of the expectation of the researcher with the study at 10% significance level which is the hypothesis is rejected .and the result is also inconsistent with the study of Ferguson, et al. 2003 who found that years of efficiency of the clients affects the audit fee.

CHAPTER FIVE

5. Summary, Conclusions and Recommendations

5.1. Summary

From Five Years Under Review by the Summary of Descriptive Statistics of Study Audit Firms average earned is 160.195422 in thousand birr per from 2012-2016. In the same term of external auditor annually from 22.3083 minimum value to 563.4517 in thousand maximums of each year in ET birr at standard deviations of The standard deviation of audit fees is 1.6988036 indicating high variation in audit fees charged.

Descriptive statistics regarding Corporate Size actual mean difference of is 543.4748046 at standard deviations of. 1028228.minimum corporate size is 18.0975 and the maximum variance of corporate size is 2567.6912.On the other hand, auditors experience indicated in average mean of experience 13.6110385 at standard deviations of .2396401 which is the minimum experience is 4.4052 and maximum experience indicator is35.8042 years of professional practice . Audit firm size which was measured by the no of employees shows the mean difference of 13.2216923. And the standard deviations of .0822475 which is minimum no of employees in an audit firm was 8 and maximum of auditor size staffed by 20.. Competition among audit firms can be measured by market share with mean difference 21.646% and standard deviations of .1691095 minimum auditor's Market share 13.968% maximum of auditor's Market share of 48.57%.Client Profitability is found in a average mean difference.1058154ratio at standard deviations of .0089563 minimums of client profit .087 ratio and maximum of.121 ratio .. Liquidity Risk in average mean difference is 34.4 at standard deviations of .91121 which is minimum of liquidity risk is .2240 measured by current ratio and maximum Liquidity Risk is .638. Client Complexity in average mean difference is 18% at standard deviations of.1010975minimum client complexity. 17708 maximums of client complexity 36.40%.Complexity of the client can be measured average mean difference is 18% of number of branches and subsidiaries of the firm locally and internationally. The average mean difference of Efficiency ratio is 53%at standard deviations of.1691095 which is minimum of client Efficiency ratio at 13.9% and maximum client efficiency ratio is 73.8%.

Regarding the regression Results of except the efficiency variable all are significant and consistent with the prior studies and the regression result, the R^2 value is 0.692 (69.2 %) which implies that 69% of fitness can be observed in the sample regression line. This can be further explained as, 69% of the total variation in Audit Fee is explained by the independent variables (Corporate Size, auditor experience, Auditor size, Audit Market Competition, Client Profitability, Liquidity Risk, Client Complexity, Efficiency ratio) jointly. But here we have to note that the efficiency as variable doesn't significantly affects the audit fee

5.2. Conclusions

Researcher has come up with the following conclusions to evaluate the determinants of external auditor fee in banking and insurance industries in Ethiopia: The finding shows that the corporate size of the client triggers 52.3% positive change on the decision made by the external auditor for the determination of its audit fee it charges from the clients, this means the client with big and relatively high sized will be charged more audit fee than others. And also it shows that aspect of auditor (firm) experience of the auditor triggers by 11.12% positively change on its fee decision through placing higher audit fees for their services. So this means that, the higher the experience of the audit firm the more is the demand on its audit services and the higher audit fees. The aspect of Auditor size is that it portrayed by 8.66% positively which is investigated the strong relationship between audit size, and audit pricing, and determined that auditor size is positively associated with higher audit fees and they provides higher quality audits of for their clients. The study found that an increase in the number of Audit firms between 2012 and 2016 lead to a significant decrease by 3.99% in real audit fees and is shows competition affects the audite fee decision. The study also found that an increase in the number of Client Profitability between 2012 and 2016 lead to a significant increase by 8.5 % in real audit fees. The study found that an increase in the liquidity risk has a significant negativity indicated by 31.9% in real external audit fees. The negative relationship between CR and Audit Fee shows that there is positive relationship between liquidity risk and Audit fee. The study in an increase of the Client Complexity lead to a significantly contributed to increase Auditor fee by 2.1%. It is argued that the more complex the client firm is, the greater the number and the more diversified the subsidiaries and operations are; which necessitate more audit work; therefore, audit firms charge higher audit fees. The study found that an increase Efficiency of the client is considered an

insignificant attribute that increase the determining amount of audit fees positively indicated by 7.67% in real audit fees. This implies that the companies have additional ability to pay for audit work due to Efficiency. Therefore, Efficiency has a positive correlation with the audit fees. Finally the variables purposively selected by the researcher have shown their importance and strong and strong relation with the audit service pricing by the independent auditor.

5.3. Recommendations

The following recommendations can be made arising from the study:

- First, Government should put in place measures that will encourage disclosure of key information like the financial statements of audit firms as very little information is publicly available about audit firms in Ethiopia.
- It was also noted that some companies failed to comply with auditor's regulations Act which requires the filing of annual reports to the authority annually, based on this fact recommend strict disciplinary action against companies which fail to comply with the requirements of the auditor's regulations Act.
- It was also noted that most companies did not disclose non-audit fees. Government should formulate requirements to ensure not only audit fees are disclosed but also non-audit fees as well. Non-audit fee poses a serious threat on the professional independence of an auditor especially if an auditor becomes over dependent on such fees.
- Auditors grading and standards which are currently in place lacks clarity and the board should immediately set strict auditors standard the rule and regulation also should be in place to protect the hidden relation between auditee and audit firm that one firm is going to audit more than one company of the same industry to protect conflict of interest and to maintain quality of audit and independence of an auditor ,
- Minimum audit fee should be set that anybody in the field will understand at least an interceptor minimum fee will solve the pricing fluctuation which is currently leading the external auditors to the unnecessary competition.

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appendix

Table 1: Summary Of Descriptive Statistics					
Variable	Obs	Mean	Std. Dev.	Min	Max
Adfee	170	160.195422	1.6988036	22.3083	563.4517
Corporate Size	170	543.4748046	.1028228	18.0975	2567.6912
Auditor experience	170	13.6110385	.2396401	4.4052	35.8042
Auditor Size	170	13.2216923	.0822475	8.0155	20.3878
Audit Market Competition	170	.21646	.1691095	.13968	.4857
Client Profitability	170	.1058154	.0089563	.087	.121
Liquidity Risk	170	.34402	.91121	.2240	.638
Client Complexity	170	.1897846	.1010975	.7708	.3640
Efficiency	170	.5321613	.1691095	.13968	.73857

TABLE 1 SUMMERY OF DESCRIPTIVE STATISTICS

Regression Results the Determinates of External Auditor Fee in banking and insurance industries of Ethiopia				
Variable	Coefficient	Std. Error	t-Statistic	sig
C	0.694431	0.279287	2.486444	0.000
Corporate Size	0.052376	0.029584	1.770387	0.001

TABLE 2 REGRESSION RESULTS

Auditor experience	0.111282	0.105724	1.052566	0.000
Auditor size	0.0866409	0.530318	1.633752	0.000
Audit Market	3.990006	0.000231	0.017279	0.000
Competition				
Client Profitability	0.085164	0.003097	1.66738	0.004
Liquidity Risk	-0.319385	0.093648	-3.410466	0.0051*
Client Complexity	0.0212	0.030696	-0.690636	0.000
Efficiency ratio	1.07671	0.442415	2.457377	0.0630**
R-squared	0.692794			
Adjusted R-squared	0.680459			
S.E. of regression	0.035309			
F-statistic	56.026141			
Prob(F-statistic)	0.0000			
DurbinWatsonstt	1.719863			
*Significant	levele of 1%			
**Significant	level of 10%			

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Table 3 Hetrskedasy the Determinates of External Auditor Fee in banking and insurance industries of Ethiopia

F-STATISTIC	3051.493021	PROB. F (44,72)	0.9935
OBS*R-SQUARED	20.08928	Prob. Chi-Square(30)	0.9789
SCALED EXPLAINED	22.28082	Prob. Ch-Square(44)	0.9985

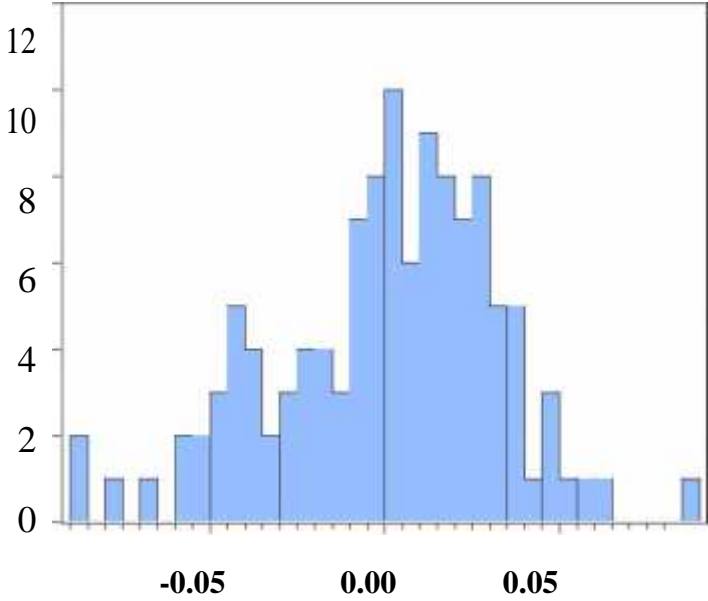
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Table 4: Autocorrelation test

SERIES:	STANDARDIZED RESIDUALS
SAMPLE:	2012- 2016
OBSERVATIONS	170
MEAN	-10.67e-18
MEDIAN	0.003725
MAXIMUM	0.079914
MINIMUM	-0.077369
STD. DEV.	0.032121
SKEWNESS	-0.319287
KURTOSIS	3.093339
JARQUE-BERA	3.667590
PROBABILITY	0.184275

Variables	DW Test Statistics Result
All Specific And Macroeconomic Factors	1.71

TABLE 5 NORMALITY TEST



*****Source from researcher
financial survey data,
(2018**

**TABLE 6
MULTICOLINIERITY
TEST**

VARIABLE'S	LN(AF)	CS	AUEXP	ROA	EFF	AS	AMCO	LR	CC	LN ASS
AUDIT FEES	1									
CORPORATE SIZE	-0.26	1								
AUDIT OR EXPERIENCE	0.397	-0.1997	1							
PROFITABILITY	0.023	-0.0708	-0.1441	1						
EFFICIENCY	-0.29	-0.0061	0.513	-	1					
				0.0037						
AUDITOR SIZE	-0.74	0.1674	0.2897	-0.056	0.26241	1				
AUDIT MARKET COMPETITION	-0.31	-0.221	0.2638	-0.112	0.20072	0.3606	1			
LIQUIDITY RISK	0.573	0.1404	-0.8298	0.1112	-0.552	-0.412	-0.474	1		
CLIENT COMPLEXITY	0.162	0.312	0.451	0.345	0.417	0.4145	0.4762	0.1721	1	
GROSS ASSET	0.4645	0.2057	0.2341	0.314	0.1713	0.3317	0.4125	0.451	0.4312	1

TABLE 7 PANEL DATA SUMMERY

Panel data on thesis final Regression Results the Determinates of External Auditor Fee in banking and insurance industries of Ethiopia

(XY)	Y	1	2	3	4	5	6	7	8
1)	2012	3.2575	.1913	.5398	.1875	.6655	9144.54	.099	.135
2)	2013	3.1799	.1975	.541	.1638	.6825	10747.28	.103	.081
3)	2014	3.0098	.1814	.6353	.1628	.7053	13256.12	.102	.077
4)	2015	6.4517	.6912	1.8042	.0358	1.2857	224	.115	.106
5)	2016	4.2089	.4012	.8824	.019	.852	424	.118	.158
6)	2012	3.6927	.2691	.6546	.0845	.6498	678.2	.112	.253
7)	2013	2.5267	.1838	.9356	.0155	.7454	1022.88	.121	.364
8)	2014	3.0038	.1354	.7187	.1453	.5128	1768.32	.106	.284
9)	2015	3.3089	.1152	.6451	.2174	.3968	2500.59	.114	.181
10)	2016	3.1184	.1352	.5402	.3077	.4874	3670.73	.087	.341
11)	2012	3.2213	.1363	.4773	.3674	.4658	6538.72	.099	.135
12)	2013	3.2945	.157	.4614	.3842	.6686	7351.13	.103	.081
13)	2014	2.3695	.15	.6077	.2498	.8912	11462.06	.102	.077
14)	2015	3.2575	.1913	.5398	.1875	.6655	9144.54	.099	.135
15)	2016	3.1799	.1975	.541	.1638	.6825	10747.28	.103	.081
16)	2012	3.0098	.1814	.6353	.1628	.7053	13256.12	.102	.077
17)	2013	6.4517	.6912	1.8042	.0358	1.2857	22400	.115	.106
18)	2014	2.9652	.1252	.6168	.2641	.572	24763.88	.102	.077
19)	2015	2.5476	.1174	.5132	.2932	.6934	2954	.115	.106
20)	2016	2.8184	.1278	.4052	.3878	.7722	3830	.118	.158
21)	2012	2.8058	.1381	.5177	.2771	.6747	4820.22	.112	.253
22)	2013	2.9752	.1334	.5759	.2123	.5166	6422.55	.1	.364
23)	2014	2.9925	.1309	.4891	.2929	.4909	7944.78	.106	.28
24)	2015	3.1039	.148	.4555	.3168	.4961	10115.78	.114	.181
25)	2016	2.7884	.142	.5223	.2641	.5819	13125.22	.087	.341
26)	2012	2.5889	.1337	.562	.2731	.6004	17783.93	.099	.135
27)	2013	2.6395	.1336	.5687	.2692	.5963	20028.79	.103	.081
28)	2014	2.9652	.1408	.6257	.2298	.6622	23869.61	.102	.077
29)	2015	2.8855	.1644	.4455	.2591	.8737	2834	.115	.106
30)	2016	2.4791	.1294	.6442	.1665	.8074	3396	.118	.158
31)	2012	2.3083	.1095	.9369	.0354	.738	4269.94	.112	.253
32)	2013	2.8809	.1065	.6406	.214	.5435	5476.62	.1	.364
33)	2014	2.6322	.0996	.5813	.2545	.5682	6279.54	.106	.28
34)	2015	2.7993	.0975	.5819	.2904	.5276	7277.96	.114	.181
35)	2016	2.8372	.1168	.6009	.276	.5608	8239.51	.087	.341
36)	2012	2.8678	.1206	.6009	.2148	.5424	10129.37	.099	.135
37)	2013	2.7324	.1429	.653	.2088	.5564	11276.39	.103	.081
38)	2014	2.7699	.1452	.6902	.1747	.5311	13667.55	.102	.077
39)	2015	3.1537	.1316	.5727	.3264	.8526	2259	.115	.106
40)	2016	3.1699	.1404	.5219	.3404	.7564	3480	.118	.158

41)	2012	3.4405	.1592	.5584	.2754	.7443	4124.89	.112	.253
42)	2013	3.7938	.181	.4576	.2506	.5321	5118.31	.1	.364
43)	2014	3.7545	.1937	.4383	.2366	.6056	5741.93	.106	.28
44)	2015	3.5349	.1938	.4378	.2706	.4663	8061.05	.114	.181
45)	2016	3.1493	.1955	.461	.2286	.6042	8347.15	.087	.341
46)	2012	2.724	.1953	.5238	.1999	.6072	10393.8	.099	.135
47)	2013	3.0238	.1982	.6255	.1534	.54	11242.58	.103	.081
48)	2014	2.9412	.1935	.6588	.1546	.6151	13711.36	.102	.077
49)	2015	3.2442	.143	.5238	.2785	.7992	1599	.115	.106
50)	2016	3.2597	.1904	.5469	.2323	.8874	2182.5	.118	.158
51)	2012	3.2327	.1722	.55	.22	.7407	3249.96	.112	.253
52)	2013	3.0403	.1316	.6128	.1895	.5769	4651.7	.1	.364
53)	2014	3.315	.1209	.515	.3014	.533	5896.23	.106	.28
54)	2015	3.3902	.1323	.4885	.3013	.5253	7725.62	.114	.181
55)	2016	2.3732	.1334	.5112	.2974	.5905	8786.86	.087	.341
56)	2012	3.1714	.128	.6624	.1856	.5734	9977.67	.099	.135
57)	2013	3.7509	.1442	.7072	.1428	.5611	11876.37	.103	.081
58)	2014	3.6949	.1285	.7314	.1725	.574	14360.87	.102	.077
59)	2015	3.0075	.1516	.4969	.2279	.9766	2027	.115	.106
60)	2016	3.0917	.1834	.4904	.2141	.934	2607	.118	.158
61)	2012	3.364	.1912	.4985	.221	.8234	3650.11	.112	.253
62)	2013	3.4596	.1724	.4851	.2316	.6425	4806.5	.1	.364
63)	2014	3.555	.1701	.4874	.2442	.5929	5970.51	.106	.28
64)	2015	3.7921	.179	.476	.2361	.5143	7111.52	.114	.181
65)	2016	3.3487	.1986	.4871	.2121	.6181	8275.7	.087	.341
66)	2012	3.2575	.1913	.5398	.1875	.6655	9144.54	.099	.135
67)	2013	3.1799	.1975	.541	.1638	.6825	10747.28	.103	.081
68)	2014	3.0098	.1814	.6353	.1628	.7053	13256.12	.102	.077
69)	2015	6.4517	.6912	1.8042	.0358	1.2857	224	.115	.106
70)	2016	4.2089	.4012	.8824	.019	.852	424	.118	.158
71)	2012	3.6927	.2691	.6546	.0845	.6498	678.2	.112	.253
72)	2013	2.5267	.1838	.9356	.0155	.7454	1022.88	.121	.364
73)	2014	3.0038	.1354	.7187	.1453	.5128	1768.32	.106	.284
74)	2015	3.3089	.1152	.6451	.2174	.3968	2500.59	.114	.181
75)	2016	3.1184	.1352	.5402	.3077	.4874	3670.73	.087	.341
76)	2012	3.2213	.1363	.4773	.3674	.4658	6538.72	.099	.135
77)	2013	3.2945	.157	.4614	.3842	.6686	7351.13	.103	.081
78)	2014	2.3695	.15	.6077	.2498	.8912	11462.06	.102	.077
79)	2015	3.2575	.1913	.5398	.1875	.6655	9144.54	.099	.135
80)	2016	3.1799	.1975	.541	.1638	.6825	10747.28	.103	.081
81)	2012	3.0098	.1814	.6353	.1628	.7053	13256.12	.102	.077
82)	2013	6.4517	.6912	1.8042	.0358	1.2857	22400	.115	.106
83)	2014	2.9652	.1252	.6168	.2641	.572	24763.88	.102	.077
84)	2015	2.5476	.1174	.5132	.2932	.6934	2954	.115	.106
85)	2016	2.8184	.1278	.4052	.3878	.7722	3830	.118	.158
86)	2012	2.8058	.1381	.5177	.2771	.6747	4820.22	.112	.253

87)	2013	2.9752	.1334	.5759	.2123	.5166	6422.55	.1	.364
88)	2014	2.9925	.1309	.4891	.2929	.4909	7944.78	.106	.28
89)	2015	3.1039	.148	.4555	.3168	.4961	10115.78	.114	.181
90)	2016	2.7884	.142	.5223	.2641	.5819	13125.22	.087	.341
91)	2012	2.5889	.1337	.562	.2731	.6004	17783.93	.099	.135
92)	2013	2.6395	.1336	.5687	.2692	.5963	20028.79	.103	.081
93)	2014	2.9652	.1408	.6257	.2298	.6622	23869.61	.102	.077
94)	2015	2.8855	.1644	.4455	.2591	.8737	2834	.115	.106
95)	2016	2.4791	.1294	.6442	.1665	.8074	3396	.118	.158
96)	2012	2.3083	.1095	.9369	.0354	.738	4269.94	.112	.253
97)	2013	2.8809	.1065	.6406	.214	.5435	5476.62	.1	.364
98)	2014	2.6322	.0996	.5813	.2545	.5682	6279.54	.106	.28
99)	2015	2.7993	.0975	.5819	.2904	.5276	7277.96	.114	.181
100)	2016	2.8372	.1168	.6009	.276	.5608	8239.51	.087	.341
101)	2012	2.8678	.1206	.6009	.2148	.5424	10129.37	.099	.135
102)	2013	2.7324	.1429	.653	.2088	.5564	11276.39	.103	.081
103)	2014	2.7699	.1452	.6902	.1747	.5311	13667.55	.102	.077
104)	2015	3.1537	.1316	.5727	.3264	.8526	2259	.115	.106
105)	2016	3.1699	.1404	.5219	.3404	.7564	3480	.118	.158
106)	2012	3.4405	.1592	.5584	.2754	.7443	4124.89	.112	.253
107)	2013	3.7938	.181	.4576	.2506	.5321	5118.31	.1	.364
108)	2014	3.7545	.1937	.4383	.2366	.6056	5741.93	.106	.28
109)	2015	3.5349	.1938	.4378	.2706	.4663	8061.05	.114	.181
110)	2016	3.1493	.1955	.461	.2286	.6042	8347.15	.087	.341
111)	2012	2.724	.1953	.5238	.1999	.6072	10393.8	.099	.135
112)	2013	3.0238	.1982	.6255	.1534	.54	11242.58	.103	.081
113)	2014	2.9412	.1935	.6588	.1546	.6151	13711.36	.102	.077
114)	2015	3.2442	.143	.5238	.2785	.7992	1599	.115	.106
115)	2016	3.2597	.1904	.5469	.2323	.8874	2182.5	.118	.158
116)	2012	3.2327	.1722	.55	.22	.7407	3249.96	.112	.253
117)	2013	3.0403	.1316	.6128	.1895	.5769	4651.7	.1	.364
118)	2014	3.315	.1209	.515	.3014	.533	5896.23	.106	.28
119)	2015	3.3902	.1323	.4885	.3013	.5253	7725.62	.114	.181
120)	2016	2.3732	.1334	.5112	.2974	.5905	8786.86	.087	.341
121)	2012	3.1714	.128	.6624	.1856	.5734	9977.67	.099	.135
122)	2013	3.7509	.1442	.7072	.1428	.5611	11876.37	.103	.081
123)	2014	3.6949	.1285	.7314	.1725	.574	14360.87	.102	.077
124)	2015	3.0075	.1516	.4969	.2279	.9766	2027	.115	.106
125)	2016	3.0917	.1834	.4904	.2141	.934	2607	.118	.158
126)	2012	3.364	.1912	.4985	.221	.8234	3650.11	.112	.253
127)	2013	3.4596	.1724	.4851	.2316	.6425	4806.5	.1	.364
128)	2014	3.555	.1701	.4874	.2442	.5929	5970.51	.106	.28
129)	2015	3.7921	.179	.476	.2361	.5143	7111.52	.114	.181
130)	2016	3.3487	.1986	.4871	.2121	.6181	8275.7	.087	.341
131)	2012	3.2575	.1913	.5398	.1875	.6655	9144.54	.099	.135
132)	2013	3.1799	.1975	.541	.1638	.6825	10747.28	.103	.081

133)	2014	3.0098	.1814	.6353	.1628	.7053	13256.12	.102	.077
134)	2015	6.4517	.6912	1.8042	.0358	1.2857	224	.115	.106
135)	2016	4.2089	.4012	.8824	.019	.852	424	.118	.158
136)	2012	3.6927	.2691	.6546	.0845	.6498	678.2	.112	.253
137)	2013	2.5267	.1838	.9356	.0155	.7454	1022.88	.121	.364
138)	2014	3.0038	.1354	.7187	.1453	.5128	1768.32	.106	.284
139)	2015	3.3089	.1152	.6451	.2174	.3968	2500.59	.114	.181
140)	2016	3.1184	.1352	.5402	.3077	.4874	3670.73	.087	.341
141)	2012	3.2213	.1363	.4773	.3674	.4658	6538.72	.099	.135
142)	2013	3.2945	.157	.4614	.3842	.6686	7351.13	.103	.081
143)	2014	2.3695	.15	.6077	.2498	.8912	11462.06	.102	.077
144)	2015	3.2575	.1913	.5398	.1875	.6655	9144.54	.099	.135
145)	2016	3.1799	.1975	.541	.1638	.6825	10747.28	.103	.081
146)	2012	3.0098	.1814	.6353	.1628	.7053	13256.12	.102	.077
147)	2013	6.4517	.6912	1.8042	.0358	1.2857	22400	.115	.106
148)	2014	2.9652	.1252	.6168	.2641	.572	24763.88	.102	.077
149)	2015	2.5476	.1174	.5132	.2932	.6934	2954	.115	.106
150)	2016	2.8184	.1278	.4052	.3878	.7722	3830	.118	.158
151)	2012	2.8058	.1381	.5177	.2771	.6747	4820.22	.112	.253
152)	2013	2.9752	.1334	.5759	.2123	.5166	6422.55	.1	.364
153)	2014	2.9925	.1309	.4891	.2929	.4909	7944.78	.106	.28
154)	2015	3.1039	.148	.4555	.3168	.4961	10115.78	.114	.181
155)	2016	2.7884	.142	.5223	.2641	.5819	13125.22	.087	.341
156)	2012	2.5889	.1337	.562	.2731	.6004	17783.93	.099	.135
157)	2013	2.6395	.1336	.5687	.2692	.5963	20028.79	.103	.081
158)	2014	2.9652	.1408	.6257	.2298	.6622	23869.61	.102	.077
159)	2015	2.8855	.1644	.4455	.2591	.8737	2834	.115	.106
160)	2016	2.4791	.1294	.6442	.1665	.8074	3396	.118	.158
161)	2012	2.3083	.1095	.9369	.0354	.738	4269.94	.112	.253
162)	2013	2.8809	.1065	.6406	.214	.5435	5476.62	.1	.364
163)	2014	2.6322	.0996	.5813	.2545	.5682	6279.54	.106	.28
164)	2015	2.7993	.0975	.5819	.2904	.5276	7277.96	.114	.181
165)	2016	2.8372	.1168	.6009	.276	.5608	8239.51	.087	.341
166)	2012	2.8678	.1206	.6009	.2148	.5424	10129.37	.099	.135
167)	2013	2.7324	.1429	.653	.2088	.5564	11276.39	.103	.081
168)	2014	2.7699	.1452	.6902	.1747	.5311	13667.55	.102	.077
169)	2015	3.1537	.1316	.5727	.3264	.8526	2259	.115	.106
170)	2016	3.1699	.1404	.5219	.3404	.7564	3480	.118	.158