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DETERMINANTS OF EXTERNAL AUDIT QUALITY: THE CASE OF PRIVATE AUDIT FIRMS

**A THESIS SUBMITTED TO THE DEPARTMENT OF ACCOUNTING
AND FINANCE
ADDIS ABABA UNIVERSITY
COLLEGE OF BUSINESS AND ECONOMICS**

**PRESENTED IN PARTIAL FULFILLMENT OF THE REQUIREMENTS
FOR THE AWARD OF THE DEGREE OF MASTER OF SCIENCE IN
ACCOUNTING AND FINANCE**

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**May 2021
Addis Ababa, Ethiopia**

DECLARATION

I, Nafkot Assefa, declare that this study entitled "*Determinates of External Audit quality: the case of Private Audit Firms*" is my original work and has not been presented for a degree in any other university, and that all sources of materials used for the study have been duly acknowledged.

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STATEMENT OF CERTIFICATION

This is to certify that the thesis carried out by Nafkot Assefa on the topic entitled “Determinants of External Audit Quality: the Case of Private Audit Firms” is his original work and is suitable for submission for the award of Master of Science in Accounting and Finance.

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This is to certify that the thesis carried out by Nafkot Assefa, under the supervision of Dr. Temesgen Worku entitled ‘Determinants of External Audit Quality: the Case of Ethiopian Private Audit Firms’ and submitted in partial fulfillment of the requirements of the Degree of Master of Science in Accounting and Finance complies with the regulations of the University and meets the accepted standards with respect to originality and quality.

Signed by the Examining Committee:

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ACKNOWLEDGEMENT

My gratitude goes to God the almighty for giving me strength, wisdom and the ability to start and complete this thesis successfully. Next, I am very grateful to my main advisor Dr. Temesgen (PhD) Worku for his overall guidance, understanding, reviews of the paper and constructive comments. Second, I would like to also thank All Private audit firms and their staffs and management for their unreserved support on data collection. Especially, my deep appreciation goes to EyuelAsrat and Amare Legesse for their constant encouragement and support that they rendered to me in entire endeavor of my work. Last but not list, I thank with big respect to my entire family for understanding and supporting in all aspects.

Abstract

The aim of this study is to assess the determinant factors affecting external audit quality in Ethiopian audit firms. Namely External audit quality, External Auditors Professionalism, level of Education, work Experience, evidence-based approach and independence. Considering this objective, the study adopted quantitative method of research approaches to test a series research hypothesis. Specifically, the study used primary data through close ended questionnaires. From the total population of One hundred thirty-two external audit firms licensed and registered in Addis Ababa Accounting in Auditing Board of Ethiopia (AABE), Forty audit firms are selected based on convenience sampling and one hundred sixty fore questionnaires are distributed. Seven questionnaires are distributed for each firm. The questionnaires are answered by principal/partners, Director/ Audit Managers, senior and Junior audit position. The results of multiple regression reveal that Auditors' professionalism, auditors' level of education, and auditors' independence have positive and significant effects on external audit quality and auditors' work experience and Auditors' evidence-based approach have a positive and negative with insignificant effect on external audit quality. Therefore, this is a clear signal to audit firms, professional associations and the Accounting and Auditing Board of Ethiopia (AABE) not to ignore the key determinant factors of Auditors' professionalism, auditors' level of education, and auditors' independence.

Keywords: External audit quality, External Audit Professionalism, External Auditor level of Education, External Auditors work Experience, External Auditor evidence-based approach and External Auditors Independence,

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CHAPTER ONE

Introduction

This chapter contains introductory part of the entire study. It provides some insights about the background of and assumptions where the study. It states background of the study, statement of the problem, basic research questions, objectives of the study, research hypothesis, significance of the study, scope of the study, definition of key terms, and organizations of the study. Accordingly, it begins with background of the study.

1.1 Background of the Study

Audit is playing an important role in developing and enhancing the global economy and business firms. Investor confidence is fundamental to the successful operation of the world's financial markets. When making decisions about capital allocation, investors need to know that financial information they are given is credible and reliable. The quality of audits and audit opinions expressed on financial reports are crucial to achieving a sustained investor 's confidence. Independent auditors play a vital role in enhancing the reliability of financial information by attesting to the trustworthiness of the financial statements Temitope(2013).

The need for external auditors may be seen as a response to the agency problem and the audit functions as a mechanism to attest to the accountability and stewardship of company management to reduce the possibility of innocent mistakes and deliberate misstatements such as fraud and management manipulation Anderson (1993). This suggests that, outside inspector assumes critical part in giving sensible confirmation to the nature of monetary data introduced to investors and different clients of budget summaries. It is accepted that nature of fiscal summaries is more believable when review administration is performed with superior grade. Be that as it may, give a top-notch review administration isn't basic undertaking and influenced by review firm explicit just as customer related variables.

Due to robust incentives (including taxation, misreporting and other forms of fraud) to misstate financial information, auditing has become a legal requirement for many entities who have the power to exploit financial information for personal gain. Customarily, reviews were predominantly connected with acquiring data about monetary frameworks and the monetary records of an organization or a business. Because of requirements, a review looks to give just

sensible affirmation that the assertions are liberated from material blunder. Subsequently, factual testing is frequently received in reviews. On account of monetary reviews, a bunch of budget summaries are supposed to be valid and reasonable when they are liberated from material errors – an idea affected by both quantitative (numerical) and subjective variables. Yet, as of late, the contention that inspecting ought to go past obvious and reasonable is acquiring energy McKenna(2011).

On the word of Nelson BarasaOjanji, (2013), the consequences of the investigation demonstrated promising constructive outcome of portable cash take-up on the monetary execution of NGO's that have embraced versatile cash in their exercises and to be sure critical beneficial outcome on, improved client commitment and fulfillment, consistence with benefactor guidelines, proficiency and adequacy and in particular diminished financial danger status among others. The examination zeroed in essentially on portable cash take-up's impact on non-governmental organization execution. The discoveries and suggestions didn't address impact of outer evaluator ascribes on the NGO project execution.

Lack of scientific knowledge of the local area and the clients of budget reports about inspecting calling: A few investigations have related the hole of assumptions to the inadequacy of the clients of the fiscal summaries and the misconception of the review calling. 34% of the purposes behind the hole in assumptions are because of nonsensical assumptions from the monetary local area. Uncertainty in the freedom and impartiality of the outside examiner: The monetary local area should be persuaded of the autonomy of the evaluator. The genuine presence of the review calling relies upon this conviction. On the off chance that the monetary local area questions the freedom of the reviewers, their perspectives are of no worth, and hence there is no requirement for the administrations of the evaluators. Subsequently, they should keep away from all connections and conditions that raise doubt about their autonomy Doorman (2010).

In developing countries like Ethiopia, the efficient practices of the auditors in their responsibilities have not yet developed very well Muluneh(2007). World Bank (2007) also reported that most of the external auditors in Ethiopia complain audit quality in the country was very low. This raises the question of what audit quality is and the determinant factors affecting it. However, the concept of audit quality has proved difficult to define with certainty. It is not immediately or directly observable and is difficult to measure Power (1997). Moreover, audit

markets ‘participants have conflicting roles and different expectations that lead to different interpretations of audit quality Sutton(1993). As a result, different people tend to have different definitions and ways of measuring it Rasmussen & Jensen, (1998); Watkins(2004), which suggests ambiguity and subjectivity in the term audit quality. The most used definition of audit quality was DeAngelo (1981) which expresses the quality in terms of auditor ‘s competence and independence. The quality is then dependent on the probability that the auditor will both discover a breach and report that breach DeAngelo (1981).

This study contributes to current literature in the following aspects. Firstly, prior studies present evidence of lower-quality audits supplied by smaller offices, due to the lack of human capitals or lower auditor independence Francis (2009); Choi (2010). Our paper makes contributions to this line of research, by identifying other office-level auditor characteristics (i.e., city-level industry specialization and audit office tenure) that mitigate heterogeneous quality across audit offices of various sizes. Secondly, our study adds to current literature in the effect of city-level industry specialization on audit quality (e.g., Ferguson(2003); Francis (2005); Reichelt(2010). Our findings suggest that city-level industry specialization play an important role in small audit offices. Thirdly, to the best of our knowledge, our paper is one of few studies that pay attention to auditor tenure at office level. Current literature generally focuses on auditor tenure at firm level, and suggests the lack of client-specific knowledge in the early years of audit engagements. We apply this argument to office-level analysis, based on the notion that client-specific knowledge is held by engagement offices and is not easily shared among audit offices within an audit firm. Hence, the study was focused on private Certified Audit Firms, for which audit quality for this sector has become essential to achieve the national economic objectives. Despite this aspect, conducted researches are insufficient specifically on the determinants of external audit quality in private Certified Audit Firms.

The researcher has two justifications for this particular study. A study conducted by Gebre (2020), clearly stated that private Certified Audit Firms has a gap needs to fulfill with regard to private audit firms of Ethiopia to know that number of staffs” assignment per audit engagement is an important factor to achieve audit quality. Hence, private audit firm of Ethiopia shall to assign a greater number of staffs in audit engagements to achieve a high-quality audit work. Studies made on determinant factors of audit quality is a controversial topic. The findings from

the existing literatures are inconsistent and inconclusive, hence future researchers should work their studies on this topic and shall add a value to the existing literatures. Moreover, although very important factors have been included in this study, future researchers could add other important variables in the model and it will be very interesting to study determinants of external audit quality in the case of private audit firms of Ethiopia. Those gaps have a great impact on achieving the audit quality objectives of the private Certified Audit Firms. Therefore, this initiates me to conduct on determinant of external audit quality at private Certified Audit Firms.

A study showed by Tensae (2020), clearly stated that private Certified Audit Firms has a gap needs to fulfill with regard to private audit firms of Ethiopia that the Professional associations and AABE should take the results of this study particularly the impact of regulation on audit quality. Therefore, they should have to design and exert effective regulation on the audit industry in order to increase the stockholders trust on the audited statement. Moreover, the challenges which limit the accounting professional associations from playing an important role on the regulation of the auditing practice is still alarming issues and to regulate the auditing industry of Ethiopian. Therefore, this motivates the student researcher to conduct on examining the determinant of external audit quality at private Certified Audit Firms.

Hence, the study focused on one of private Certified Audit Firms, for which audit quality for this sector has become essential to achieve the national economic objectives. Despite this aspect, conducting researches are insufficient specifically on the determinants of external audit quality in private Certified Audit Firms in Ethiopia in focus of private Certified Audit Firms located in Addis Ababa.

1.2 Statement of the Problem

The study intends to relate the present external audit quality practice at private Certified Audit Firms with best practices which would ultimately recognize the non-performing areas and limitations of external audit quality practice through the case study of the private Certified Audit Firms.

Theoretically, the student researcher also goes beyond such literature to reveal what researches have been undertaken under the context of international and local studies respectively. We can count the efforts undertaken by the study of Nashat(2018) in The relationship between Internal

Corporate Governance Mechanisms and the Quality of External Audit Process in Jordan, Trinh Lu Tran Diem (2016) in The effect of auditors' workload pressure and compression on audit quality, Andreea et al. (2019) in The Determinants Factors on Audit Quality, Soyemi et al. (2020) in external audit(or) quality and accrual earnings management: further evidence from Nigeria, Johnson, (2016) in determinants of external auditors choice in Nigerian quoted manufacturing companies, Onder (2010) in determinants of auditor choice, Provita et al. (2015), Amahalu (2017) in Audit Quality Determinants: Evidence from Quoted Health Care Firms in Nigeria. Moreover, locally there are some studies focused on external audit quality such as, Seid, (2016), Bogale (2016), Tensae (2017), Mesafnt (2017) and etc. respectively. Despite this fact, researches conducted are insufficient and few specifically on the determinants of external audit quality in manufacturing sector focusing on Brewery industry. Therefore, from the preview of literature it is evident that the research evidence on determinants of Audit quality that factors can explain significant number of audit quality at sectorial level and organizational level. It is these facts that have motivated this study in order to contribute evidence from the manufacturing sector with particular reference of Brewery industry. So, the student researcher wanted to see the cause-and-effect relationship between factors of external audit quality and audit quality itself as dependent variable in the private Certified Audit Firms located at Addis Ababa.

Practically, when we try to consider the practical gap, the student researcher preliminary investigation some observed problems in light of the external audit quality issues of private Certified Audit Firms for instance; lack of qualified and trained audit staff, Poor remuneration package given by the audit firms (salary and related benefit), high dependence on audit fees, Poor monitoring and follow up excessive by the regulatory body (AABE-Auditors and accountants boards of Ethiopia, Lack of independence, Problem on proper and adequate training for junior auditors, and poor planning on audit engagement a head of time, pressure on external Auditor to complete their work, lack of cooperation from internal, Auditors delay in preparation of financial statement, unsatisfactory explanations to enquiries, missing vouchers and source documents, misconception on the work of the External Auditors, poor record keeping of client's transaction, and lapses in the implementation of internal controls. Moreover, the student researcher preliminary investigation clearly showed that above is a summary of various factors and issues identified as main challenges facing external auditors in auditing organizations.

Therefore, the existing problem of research motivated to conduct the determinant of external audit quality the case of private Certified Audit Firms.

1.3 Research Questions

To achieve the research objective, this study attempts to address the following basic research questions. These are:

1. To what degree External auditors' Level of education has influence on Audit Quality of private Certified Audit Firms?
2. To what extent External auditors' Professionalism has influence on Audit Quality of private Certified Audit Firms?
3. How does the External auditors' work experience have influence on Audit Quality of private Certified Audit Firms?
4. To what extent External auditors' evidence-based approach has influence on Audit Quality of private Certified Audit Firms?
5. How does the External auditors' Independence have influence on Audit Quality of private Certified Audit Firms?

1.4 Objective of the Study

The objective of the study consists of general and specific objectives.

1.4.1 General Objective of the Study

As the researcher discussed above on the statement of the problem, the general objective of this research is to examine the determinant of external audit quality in private Certified Audit Firms.

1.4.2 Specific objective of the Study

1. To determine the influence of External auditors' Level of education on Audit Quality in private Certified Audit Firms.
2. To examine the influence of External auditors' Professionalism on Audit Quality in private Certified Audit Firms.
3. To identify the influence of External auditors' work experience on Audit Quality in private Certified Audit Firms.
4. To find out the influence of External auditors' evidence-based approach on Audit Quality in private Certified Audit Firms.

5. To find out the influence of External auditors' Independence on Audit Quality in private Certified Audit Firms.

1.5 Research Hypothesis

The study examined the following hypothesis:

H_{1:1} There is a positive and significant effect of External auditors' Level of education on Audit Quality.

H_{1:2} There is a positive and significant effect of External auditors' Professionalism on Audit Quality.

H_{1:3} There is a positive and significant effect of External auditors' work experience on Audit Quality.

H_{1:4} There is a positive and significant effect of External auditors' evidence-based approach on Audit Quality.

H_{1:5} There is a positive and significant effect of External auditors' independence on Audit Quality.

1.6 Significance of the Study

The research paper would have practical significance to the existing body of knowledge in the Certified Audit Firm in addition to meeting the objectives of the study which are mentioned above. Beside this, the major significances are:

One of the most important concerns is the issuance of international standards for the conduct of quality control on external audit work. The importance of this research is determined by determining the factors and variables that affect the quality of the audit work and the possibility of applying quality control in the auditors' firms in Ethiopia.

This study would contribute to academic debate about the factors affecting audit quality, while providing evidence to regulators and policy makers in the following ways. The gaps mentioned in the study act as a guide to any intended research to assist in topic selection and identify areas that need further study.

1.7 Scope of the Study

Conceptually, the study focused on the 5 variables of the determinants of Audit quality called External auditors' Professionalism, External auditors' Level of education, External auditors' Work experience, External auditors' evidence-based approach, and External auditors' Independence. Besides these variables, there might be other factors such as audit tenure, internal control, accountability, etc. Therefore, the study delimited methodologically to raise other factors.

Geographically, considering all staffs of Registered Certified Audit Firm of Ethiopia under this study is difficult and unmanageable. In addition to that the rational for the Certified Audit Firm Addis Ababa staff is chosen due to the proximity of the student researcher. Therefore, this study only focused on selected Certified Audit Firm of the Addis Ababa.

Methodologically, this study was used quantitative research approach, and explanatory research design, and the sampling technique employed probability sampling techniques because the target population of the study area is defined population. Moreover, with regard to the **temporal scope**, this research was focused on cross sectional survey. Because, the study is cross sectional survey meaning it is end by one-year time period.

1.8 Limitation of the Study

Factors of Audit quality elements, External auditors' Professionalism, External auditors' Level of education, External auditors' Work experience, External auditors' evidence-based approach, and External auditors' Independence are considered in this study. Other Factors of Audit quality elements like audit tenure, internal control, accountability not included or considered in this study. Nevertheless, several of the empirical studies suggest that audit tenure, internal control, accountability may have an important influence on audit quality. As a result, Singhal (2014), Dunmire (2012); Deloitte (2007); Ismail and Cieh (2013); and Gul and Fung (2014) and (Kassem and Higson (2015) tried to revise determinants of Audit quality in a way that they believe is better to be applied in developing countries. Therefore, the result may not be representative to show the overall factors of audit quality.

1.9 Operational Definition of the Study

External auditors (The auditors)Level of education: This refers to the cumulative schooling that one has acquired over time. It refers to the highest level of formal training that one has obtained and can be ranked comparatively according to the different stages of education i.e. primary, secondary, diploma, graduate and postgraduate levels.

External auditors'Professionalism: This is the conduct, aims, or qualities that characterize or mark a profession or a professional person. It is the type of behavior and level of excellence and competence that one would expect from a professional person. It is further defined as the combination of all qualities that are connected with trained and skilled people in a particular field such as auditing.

External auditors' work experience: This is the sum-total of both number of years worked and the specific relevant experience a person has undergone while working on a particular role in an organization or industry.

External auditors' evidence-based approach: This refers to the rational method for reaching reliable and reproducible audit conclusions in a systematic audit process. Audit findings and audit conclusions should be based on audit evidences that are verifiable. An audit is conducted during a finite period of time and with finite resources, as such audit evidence should be based on samples of the information available.

1.10 Organization of the Study

The research report organized with five chapters. Chapter one includes background of the study, statement of the problem, research questions, objectives of the study, research hypothesis, significance of the study, scope of the study, operational definitions of key terms, limitation of the study, and organizational of the study. Chapter two includes review of relevant related literature. In this second chapter, theoretical and empirical foundations of the study was presented. Chapter three encompasses research methodology which includes, research approach, research design, data type and source, target population and sample size determination, sampling techniques, methods of data collection, constructs measurement, methods of data analysis and ethical consideration. In chapter four results and discussion of the study was presented in detail. The last chapter presents the summary of findings, conclusions and recommendations of the study. The summary of findings made based on the results under chapter four. The conclusions was drawn from the summary of findings with practical recommendations at the end.

CHAPTER TWO

RELATED LITERATURE REVIEW

Introduction

Consistent with Frank Arlene (2014), a literature overview surveys books, scholarly articles, and any other sources applicable to a particular issue, zone of investigate, or hypothesis, and by doing so, offers a description, summary, and crucial comparison of these works in relation to the research problem being investigated. Literature reviews are designed to furnish an overview of sources one has explored while gaining knowledge of a particular topic and to show to the readers how the investigate matches inside a bigger field of study.

2.1 Theoretical Literature Review

2.1.1 Concept of Auditing

The word “audit” is derived from the Latin word “audire” which means the act of listening. The concept of auditing might be explained as a systematic process of objectively obtaining and evaluating evidence regarding assertions about economic actions and events to ascertain the degree of correspondence between those assertions and established criteria and communicate the results to interested users. In the audit process, there are two parties; auditee and auditor. An auditor is a professional whose task is to perform the audit by verifying the accounting and the decision-making by the management of an auditee and final report in an auditor report. This is necessitated by laws. Auditors are bound by law to enforce proper application of accounting standards and to assure that the financial reports present a true and fair view of the client’s income statements and balance sheets. However, these explanations would not grasp the depths of the complicated processes of auditing Eilifsen and McKee (2006).

Zerni (2009) explained audit service as a remarkable among other expert administrations for two significant reasons. To begin with, evaluators are recruited and paid by the customer, however their item is truly utilized by the outsiders like financial backers to whom they owe a norm of care. Second, the nature of a review can't be straightforwardly seen earlier contracting and, as a rule, not even after the review is led. The lone recognizable result of the review cycle is the given review report, which, at any rate in its standard structure, doesn't contain a lot of data about the review quality. The information base of the review interaction is essentially dark and requires

judgment. Despite the fact that the manner of speaking and strategies of examining suggest a relationship to logical practice, the real practice has just shallow similitudes to the logical work on, as per Pentland (2000). He composes that the way of talking of science is an amazing legitimating gadget for review specialists, despite the fact that evaluating isn't a science. He further cases that examining ought not be viewed as an impartial delivering of realities, rather it is a portrayal of reality through accounted and reviewed numbers. He contends that examiners go about as cradles between two representative universes, they are more to be seen like film pundits than researchers.

They interpret accounting systems, which are themselves interpretative products and they do so by following a variety of rules which are also open to interpretation. The financial statement is a summary of transactions occurring every day. Since the auditor is distanced and not able to witness the actual transaction or action there is a need for subjective interpretation by the auditor which requires judgmental skills (Francis 1994). If auditing is not a science but a practice subject to subjective interpretations and judgment as Brown (1999), Pentland (2000) and Francis (1994) suggest, then what is the value of auditing? An answer to that might be the production of comfort, where “the auditor can provide board members with reasonable assurances they need to sleep soundly at night” Brown (1999).

Pentland (1993) writes that auditing can be interpreted as a ritual which transforms the financial statements from an inherently untrustworthy state into a form that the auditors and the public can be comfortable with. Watkins (2004) mention that the process and activities leading up to the production of the audit report such as evidence gathered are an important aspect of the professional conduct which is required of the auditor. An auditor cannot claim to have performed a test of a particular area if he or she cannot show documentation on it.

Therefore, the auditors have been entrusted by the law to conduct statutory audits and that their role is of importance towards a will functioning business life by enhancing the reliability of the information. This entrustment has been based on the societal roles of an auditor in terms of reducing contractual conflict leading to the so-called agency cost between board of directors of the company who controlled the preparation of accounts and external owners by examining the management's behavior and the economic information provided by the company Carson and Dowling (2005); Watkins,(2004); Chow (1982).

By having, an audit of the company the company assures that they have quality in the actions of the management and the company due to that the role of the auditor is a role of securing the quality for external users and the company. The claim that the audit has a role of assuring the quality for external users broadens the importance of the audit and shows that it is also performed for more users than the external owners Carson and Dowling (2005).

2.1.2 Quality Audit Concept

As it is known, the nature of the review is an assurance that the review firms will proceed to work and keep up later on. Proficient associations center around the need to hold fast to proficient guidelines and quality control norms to improve the degree of administrations gave (Awadh, 2008). The review quality can be viewed as an end result of the different activities and choices attempted by the review group as a solitary working gathering, so that any glitch or any part is conflicting with the prerequisites of the review interaction dictated by the expert principles and the By and large Acknowledged Evaluating Guidelines (GAAS) considers Effect quality review Hameedat (2004).

A few meanings of review quality have been gotten. For example, Knapp (1991) characterized the nature of review, through the idea of review hazard, as decreasing the reviewer's danger of revelation, which thus lessens the danger of conclusive review. In like manner, the inspector will try to uncover and report material misquote of the fiscal summaries. As per Arens (2000), review quality is the methods utilized by the review firm to determine the degree to which proficient obligations are met.

2.1.3 Schools of Thoughts of Audit Quality

2.1.3.1 Deangelo's Definition of Audit Quality

DeAngelo (1981) defines audit quality as "the market-surveyed joint likelihood that a given examiner will both find a break in the customer's bookkeeping framework and report the penetrate to the outsiders." This definition contains two parts of review quality: (1) the likelihood to distinguish misquotes relies upon the inspector capability, experience, methodology utilized on a given review, the degree of testing, and reviewer review innovation and (2) the freedom of the evaluator, how autonomous is the evaluator from the customer to report such errors. Albeit this is the most referred to meaning of review quality, the issue is that review quality as per this

definition can't be noticed not to mention estimated. Consequently, review quality estimates dependent on this definition are aberrant techniques for estimating review quality with the guide of markers. DeAngelo's definition interfaces review quality balanced with monetary detailing quality. A monetary report where all bookkeeping breaks have been distinguished and announced by the reviewer addresses high review quality. Consequently, the degree of confirmation that no material mistake stays undetected and unreported is the measurement of review quality in DeAngelo's definition. Supporters of this way of thinking, for example, are, Palmrose (1988) precision of data reviewers give to financial backers, Epstein and Geiger (1994) the likelihood that an evaluator identifies and reports misquotes and Knechel (2009) Review quality is the accomplished affirmation level.

2.1.3.2 Level of Compliance with Standards

Another way to deal with characterize review quality is a more regularizing perspective. This methodology where review quality obliges the degree of consistence with examining guidelines is addressed, for example, by Ang and Cole (1993); Becker (1998); Bagnoli, Penno and Watt (2001). The inspector performs with phenomenal quality in the event that he/she agrees totally with every single important norm. In this viewpoint, the degree of consistence with examining guidelines mirrors the degree of review quality. Companion survey discoveries, investigation consequences of oversight sheets (like the OFAG in Ethiopia) just as claims against examiners are for this situation the best pointers for review quality. Analysis of this methodology is clear. The general target of a review isn't to best go along best with pertinent guidelines; all things being equal, it is to guarantee excellent monetary detailing.

2.1.4 Underpinning Theories of External audit Quality

Theory helps analysts and people to comprehend the connection among objects and related instruments and how the world moves around. The presence of a hypothesis requires us likewise to utilize our sensible assumptions regarding objects. Hendriksen (1970) characterizes hypothesis as an intelligent arrangement of hypothetical, calculated and practical standards shaping the overall system of reference for a field of request. Hypothesis isn't viewed as a basic 'hunch' and it's anything but a prepared idea to be utilized on request or when extraordinary situations exist.

Accordingly, the cognizant term is related with the idea of hypothesis that depends on coherent thinking Hendriksen (1970). It is inferred that the idea of hypothesis ought to be rational with human conduct to give direction and clarification about a specific marvel Deegan and Unerman(2011). Because of the way that evaluating must be performed with the presence of an evaluator, inspecting is viewed as a human action.

Because of this human instinct of reviewing, people's conduct is should have been important for the monetary examining speculations Deegan and Unerman(2011). The unmistakable or positive hypothesis was utilized predominantly in this examination as opposed to the viewpoint or standardizing speculations. Regularizing hypotheses are tied in with recommending occasions and what will be done, while the positive hypothesis depends on experimental proof and perceptions.

In spite of the fact that review quality has been liable to investigate since mid-1980s, there is no concurred hypothetical base on review quality Dowling and Bloodsucker (2011). A survey of the writing shows that four principle hypothetical structures have been utilized to clarify and dissect the relationship between income the board and outer review determinants. These are Office hypothesis, Partner hypothesis, Stewardship hypothesis, Flagging hypothesis and Institutional hypothesis. Consequently, each of the previously mentioned hypotheses identified with outside review quality and its determinants are talked about exhaustively in this specific segment in a deliberate.

2.1.4.1 Agency Theory

Agency theory is considered to be an agreement between investors (directors) and outside reviewers to control crafted by different specialists (the board). Investors (administrators) delegate assignments to be performed by the board (specialists). Assignments cover essentially working the association in the interest of investors to meet their goals. Evaluators practice a go-between part among investors and the executives to approve fiscal reports arranged by the board. The main premise of office hypothesis is that the administrators are generally inspired by their very own benefits and work to misuse their very own advantages instead of considering investors' inclinations and amplifying investor esteem. For instance, administrators might be pulled in to purchasing sumptuous workplaces, organization vehicles and other luxurious things,

since the expense is borne by the proprietors. This quest for personal circumstance expands expenses for the firm, which could incorporate the expenses of the development of agreements, misfortune because of choices being taken by the specialists and the expenses of noticing and controlling the activities of the specialists.

Leuz (2003) declare that the impacts of such conduct eventually reflect in the organization profit. Subsequently, the executives has a motivator to deal with the organization's accounted for profit to meet or beat income targets and, in this manner, to get any rewards that might be attached to the organization's income (execution related compensation). This makes a data imbalance in that administrators can practice the watchfulness they have on accumulations, which thusly decreases the importance and dependability of detailed profit, and the entire budget reports. Davidson (2005) contends that when the board gives erroneous monetary detailing data, it presents profit the executives as a kind of office cost. Subsequently, supervisors can't be completely trusted. Subsequently, severe checking of chiefs by the administrators or outer inspectors is viewed as major to shielding investors' premium from being undermined when supervisors expand their personal responsibility to the detriment of the association's benefit. In this manner, the key problem demonstrated by office hypothesis is guaranteeing that supervisors seek after the interests of investors and not just their own advantages.

2.1.4.3 Stewardship (Monitoring) Theory

Stewardship theory diagrams a co-usable and idealistic perspective on connections inside the enterprise by expecting that directors are acceptable stewards and don't abuse corporate assets; their conduct is additionally molded by non-monetary thought processes like the requirement for acknowledgment of their accomplishments and execution Vanden(2004). Subsequently, the chiefs' job is to insight and guidance instead of to screen. Stewardship hypothesis depends on organization hypothesis Jensen and Meckling (1976): the detachment of possession and control rouses the proprietors to cause expenses to screen the action of the chiefs. One of these controls is the recruiting of an outside inspector who confirms the exactness of the monetary data given by the administrators. Hence, the stewardship (observing) hypothesis considers outside evaluating as an instrument that can add to control the irreconcilable situation among firm chiefs, investors and other outer claimholders by upgrading the validity of freely revealed monetary data Chow (1982). Stewardship hypothesis considers the outer reviewers as an instrument of help to a

steward CEOs instead of a controlling system Feed and Davis (2004). It likewise thinks about that administration is less inclined to rehearse income the executives. Nonetheless, the issue lies in the degree to which the administration tries achieve a decent corporate exhibition.

2.1.5 Measuring Audit Quality

The shortfall of a bound together idea or meaning of the review quality by totally invested individuals has made it uncertain and hard to endorse or even measure straightforwardly. This trouble in estimating the nature of the review is that the solitary result of the review is the report of the visual and read inspector, which is an overall layout, and that most reports gave by the evaluators are average reports with non-moderate perspectives (the purported clean report). Krishnan and Schaur (2000) accept that to gauge the nature of an item there are two strategies (immediate and aberrant techniques) with elective methods (like item acclaim or firm distinction). With respect to review quality, there are two regular techniques to estimating review quality:

The aberrant technique: It incorporates elective methods, for example, the size of the review firm, the reviewer's standing, the time of agreement with the client, the arrangement of administrations other than the review interaction, the extent of legal disputes identified with the evaluator's work, and involvement with industry and others.

The roundabout technique (social methodology). This strategy expects that the likelihood of divulgence and announcing of any penetrates identified with the review agreement will be reflected in the result of the review cycle, for example, blunders made by the examiners.

2.1.6 Regulatory Frameworks on audit Quality

2.1.6.1 IAASB Framework on Audit Quality

As research on audit quality is still unsatisfying, some non-academic institutions set up different frameworks. The latest framework (still in draft), an international one, have been conceived by the International Auditing and Assurance Standards Board (IAASB). In an overall approach IAASB considered all possible influences of audit quality which are categorized as: (1) Inputs, (2) Outputs, (3) interactions amongst key stakeholders and (4) contextual factors. The IAASB

drafted the first version of its framework in a whitepaper in January 2011. The whitepaper states that “there have been a number of attempts to define audit quality in the past; however, none of those definitions has achieved a universal recognition and acceptance. “Audit quality is, in essence, a complex and multi-faceted concept.” After several IAASB sessions, a sketch of the framework was developed capturing the relationships between the elements: context, inputs, outputs, and interactions. Inputs are categorized into three groups: “(a) the values, ethics and attitudes of individual auditors, (b) the knowledge and experience of auditors and the time allocated for them to perform the audit; and (c) the effectiveness of the audit process and quality control procedures.” Outputs are “often determined by the context, including legislative requirements” and can be influenced by stakeholders; “for some companies’ stakeholders, the auditor’s report is the primary output and this is relatively standardized.” Interactions amongst key stakeholders include “both formal and informal communications”, which will be influenced by the context in which the audit is performed and allow a dynamic relationship to exist between inputs and outputs” elements of the framework. The contextual factors include “corporate government requirements and the applicable financial reporting framework” as well as “legislative and regulatory requirements”, which also “shape the interactions amongst key stakeholder.”

2.1.6.2 UK Financial Reporting Council's Framework on Audit Quality

A similar framework was set up five years earlier by the UK Financial Reporting Council. The Financial Reporting Council identified four main drivers for audit quality:

1. The culture within an audit firm;
2. The skills and personal qualities of audit partners and staff;
3. The effectiveness of the audit process; and
4. The reliability and usefulness of audit reporting

The focus in both frameworks (the UK FRC and the IAASB one) is on a process view of auditing where inputs are combined efficiently in order reach a certain outcome (assurance level), embedded in a specific contextual environment. On a content view, the UK Financial

Reporting Council covers the same elements and attributes like the IAASB does. However, the IAASB framework on audit quality is more comprehensive and detailed. Hence, the FRC's framework on national level will probably be obsolete soon and replaced by the pending international one from the IAASB.

2.1.7 Factors Affecting/ Determinants of External Audit Quality

2.1.7.1 Independence of Auditors

Independence is critically important to an auditor as it is regarded as being one of the fundamental principles underlying the auditor's work. The financial markets must have confidence in the integrity and objective of auditors. Without definite independence, audits have little value. Recently, regulators and public have been concerned about auditor independence in the current audit environment where severe audits failures like Enron and WorldCom, have emerged. Several regulatory bodies have recently established new independence standards, since the general setting, within which auditor independence perceptions are formed, is subject to continuous change IFAC (2001); ICAEW (2001).

Although independence of auditors is good for auditing purposes, critical issue is how users perceive auditor's independence and whether it adversely affects or erodes the public confidence in auditors. Professional accounting bodies have pointed out areas where independence might be compromised such as cases where there are unpaid fees, personal relationships, conflicts of interest and high financial involvement ICAEW (2001). It is therefore important for the regulators and standards setters to establish and improve public's perception of auditing firms. Independence is a function of the auditor's mental attitude, and one must look at the various factors which influence the auditor's behavior to determine whether his psychological makeup allows him to be objective, honest and independent. Thus, it is necessary to consider the position advanced by behaviorists. ICAEW (2001) and IFAC (2001) identified five main threats to independence as being self-interest, self-review, advocacy, familiarity or trust, and intimidation threats. Beattie (1999) identified four principal factors believed to impact auditor independence as economic dependence of the auditor on the auditee, competition within the external audit market, the provision of NAS by the auditor, and the degree of laxity of the regulatory framework.

2.1.7.2 External auditors' Level of Education

While some professional accountants may deliver a wide range of accounting and business-related services, others will choose to specialize in one (or more) area(s) of the profession. No one professional accountant can master all areas of accountancy. Specialization within the profession is necessary to ensure that a range of services can be provided with a sufficient depth of knowledge and expertise in each area. The audit of financial statements is one area in which professional accountants may specialize. To perform competently in this specialist area, professional accountants will require a higher level of education and training in audit and related areas than what is required of those who do not have substantial involvement in financial statement audits. Professional accountants involved in financial statement audits in specific industries may be more specialized yet. The nature of the industry, any applicable specific laws and accounting treatments may require professional knowledge and professional skills in addition to that required for all other audit professionals IFAC Education Committee(2005).

International Education Standards for Professional Accountants establish the essential elements of the content and process of education and development of professional accountants (e.g. subject matter, skills, ethics and practical applications). Although the Standards cannot override authoritative local pronouncements, they are prescriptive in nature. This standard prescribes the minimum competence requirements IFAC member bodies are expected to require any members to obtain before they undertake substantial involvement in a financial statement audit assignment. This standard sets out the specific knowledge, skills and experience that the public might reasonably expect professional accountants to have before having a substantial involvement in audit assignments. Different levels of responsibility within an audit assignment will demand different levels of competence. This standard sets the minimum benchmark for all audit professionals IFAC Education Committee (2005).

To acquire the capabilities required of audit professionals, professional accountants may need to take education and development programs and activities in addition to those they needed to qualify as professional accountants. The additional education and development requirements for audit professionals can be fulfilled either subsequent to, or at the same time as, the education and development program for qualifying as a professional accountant. The education and development process for developing the capabilities of audit professionals can include advanced

professional education pursued at academic institutions or through the programs of professional bodies; on-the-job training and experience programs; off-the-job training; and continuing professional development (CPD) courses and activities. IFAC member bodies may wish to impose specific requirements, in addition to the minimum benchmarks required in this standard, for professional accountants working as audit professionals. In particular, IFAC member bodies may consider prescribing specific CPD activities for audit professionals IFAC Education Committee(2005).

2.1.7.3 External Auditors' Work Experience

Professional experience is one of the key determinants that affect the efficiency of performance in professional practice. The signs of behavioral studies which have focused on the subject of experience that the quality of performance in a particular area increases with their experience in that field, so the researcher's care increased in the last years in studying the subject of professional experience in accounting and auditing. The professional experience is the power which can be obtained by the practice over time from past experiences and direct feedback and the general knowledge which lead to accomplish the task with high quality Bedard and Chi(1993), as the prevailing definition of experience in the past as a general practice, as well as the failure in taking into account the role of the knowledge, is one of the reasons that led to confusion between professional experience and practice. External auditors play a very important role in the organization.

According to Percy (2007) the users of financial statements looking for audit practice which cover duties as follows: the accounts are right; companies will not fail; companies will guard against fraud and error; companies will act within the rules; companies will be competently managed; and companies will adopt a responsible attitude to environmental and societal factors. Audit experience is related to how long the auditor works and to how many audit engagements have been completed. Technically, the audit expertise will increase with more experience in doing audit tasks. Increased experience will provide more audit quality, especially in making the assessment audit.

Conklin (1993) found that someone with more experience in a specific field had more ability in developing specific cases related to auditor experience. Previous studies concerning experience effects in audit judgments have produced mixed results, possibly because they did not consider the knowledge necessary to complete the task and when it would normally be acquired Bonner(1990). As a discipline, audit relies on competent individuals applying their experience, integrity, objectivity and professional skepticism to make appropriate judgments.

The audit department needs to command the range of skills and experience necessary for effective discharge of the audit mandate. Depending upon the nature of the audits to be undertaken under that mandate, persons whose education and experience are commensurate with the nature, scope, and complexities of the audit task should carry out the audit work Deloitte (2007). An auditor should have work experience in a technical, managerial or professional capacity. Within these, judgment, problem solving and communication skills (with other management staff or with colleagues, clients or other interested parties) are required. An auditor should also have attended a training for auditors, which contributes to the development of the necessary knowledge and skills for implementing the audit.

2.1.7.4 External auditors' Evidence-based Approach

Audit evidence is any information used by the auditor to determine whether the information being audited is stated in accordance with established criteria. It is the information used by the auditor in arriving at the conclusions on which the auditor's opinion is based. Audit evidence includes both information contained in the accounting records underlying the financial statements and other information. Audit evidence is necessary to support the auditor's opinion and report. It is cumulative in nature and is primarily obtained from audit procedures performed during the course of the audit. It may, however, also include information obtained from other sources such as previous audits (provided the auditor has determined whether changes have occurred since the previous audit that may affect its relevance to the current audit) or a firm's quality control procedures for client acceptance and continuance. Also, information that may be used as audit evidence may have been prepared using the work of a management's expert. Audit evidence comprises both information that supports and corroborates management's assertions, and any information that contradicts such assertions. In addition, in some cases the absence of

information (for example, management's refusal to provide a requested representation) is used by the auditor, and therefore, also constitutes audit evidence IFAC (2008).

IFAC's International Standard on Auditing 500 (2008) further states that the sufficiency and appropriateness of audit evidence are interrelated. Sufficiency is the measure of the quantity of audit evidence. The quantity of audit evidence needed is affected by the auditor's assessment of the risks of misstatement (the higher the assessed risks, the more audit evidence is likely to be required) and also by the quality of such audit evidence (the higher the quality, the less may be required). Obtaining more audit evidence, however, may not compensate for its poor quality. Appropriateness is the measure of the quality of audit evidence; that is, its relevance and its reliability in providing support for the conclusions on which the auditor's opinion is based. The reliability of evidence is influenced by its source and by its nature, and is dependent on the individual circumstances under which it is obtained. More assurance is ordinarily obtained from consistent audit evidence obtained from different sources or of a different nature than from items of audit evidence considered individually. For example, corroborating information obtained from a source independent of the entity may increase the assurance the auditor obtains from audit evidence that is generated internally, such as evidence existing within the accounting records, minutes of meetings, or a management representation. Information from sources independent of the entity that the auditor may use as audit evidence may include confirmations from third parties, analysts' reports, and comparable data about competitors. The standard provides guidance on what audit evidence is. We shall now give more focus on evidence-based approaches in auditing.

2.1.7.5 External Auditors Professionalism

Polished methodology doesn't happen for the time being. Maybe, it is an interaction that develops out of centered responsibility and devotion, continuous examination and expert development, more respectable option morals, unfaltering assurance, and plain, antiquated difficult work. Confirmation separates proficient inspectors from the rest by archiving their authority of the field and traits of inside reviewing. Turning out to be ensured requires broad readiness, study, information, and experience; and demonstrates a promise to polished skill The Foundation of Interior Examiners (2015). Necessary to polished skill, compelling administration,

and effective organization, and basic to corporate execution, consumer loyalty, and financial backer certainty. It is crucial for polished methodology in the business climate, and changes and advances with changing business societies and conditions The Institute of Internal Auditors (2015).

The requirements of those entering the auditing profession are demanding. Audits are performed where each auditor is expected to complete tasks requiring considerable technical knowledge and expertise. Auditors also need well-developed skills in leadership, teamwork, communication, decision making and general professionalism. In terms of technical knowledge and expertise, auditors must understand accounting and auditing authoritative literature, develop industry and client-specific knowledge, develop and apply computer skills, evaluate internal controls, and assess and respond to fraud risk. Furthermore, a strong ethical foundation is critical for each auditor Johnstone (2016).

Johnstone (2016) continue to state that in terms of professionalism, auditors make presentations to management and audit committee members, exercise logical reasoning, communicate decisions to users, manage and supervise others by providing meaningful feedback, act with integrity and ethics, interact in a team environment, collaborate with others, and maintain a professional presence. A good auditor recognizes that some degree of conflict is inevitable and failures are always possible. Auditors face the challenges of time, money, resources, and attitudes. These challenges may be with the client or the auditor. The auditor must always demonstrate professionalism. An exceptional auditor will exercise common sense with a quick response, uses past experiences and makes the job look effortless, especially when dealing with change or conflict Cannon (2011).

Strengthening the professionalism of the auditor requires an environment in which boards of directors and management of client companies have high expectations about the auditing firms' integrity, objectivity and professional expertise and in which the auditor, in meeting those obligations, recognizes an overriding public responsibility (Advisory Panel on Auditor Independence (1994). It requires an environment in which an auditor's professional services truly do add value and are not looked on simply as a regulatory requirement imposed on the company. It requires an environment in which auditors can pursue their professional activities without

undue fear of liability and in which government and regulators balance their responsibilities for oversight against the need to let the profession function effectively in the private sector.

Central to the professional behavior of auditors is the audit judgment and decision-making process while performing audit tasks. This also includes the profession's core competence: the audit process and performing audit tasks. Some behaviors – behaviors that are part of and contribute to that decision-making and audit process – are highlighted separately due to their significance to the audit process. These are: skeptical judgments and decisions (i.e., probing and being professionally skeptical), knowledge sharing and consultation behavior, working in fluid and flexible audit teams (including engagement partner involvement), communication of and negotiation on audit observations and findings, and audit documentation and justification. Dysfunctional or deviant behaviors are those behaviors that are counterproductive and are covered separately Bik (2010).

Looking at some fundamental theories of professional behavior in contemporary social sciences, one notices that these cover the inputs (e.g., desires and motivations, situational contingencies), an estimated intentionality (oriented to a certain value or outcome), the “mechanisms” by which behavior is shaped (e.g., the influence of the immediate environment, expenditure of efforts) and the outputs of behavior (e.g., action and deeds, attainment of end goals). The global demand for professional assurance, tax, and management advisory services by large and often multinational clients is the primary driver for the international growth strategies of the assurance firms. Some emphasize the importance of the rise of these Big 4 audit firms to the world economy and the global capital markets. Others, on the contrary, emphasize that these organizational forms are among the root causes of the demise of professional values in favor of commercial preferences Humphrey (2009).

The development of the auditing profession is characterized by large changes in the organizational structures of international accounting firms, which have grown from sole practitioners to multinational professional service firms³⁵, currently known as the Big 4 auditing firms. The Big 4 audit firms operated under the brand names of Deloitte, Ernst & Young, KPMG and PricewaterhouseCoopers (currently PWC), each with global revenues of USD 13 to 17 billion and 100,000 to 150,000 employees. Despite this legal structure, they are to an increasing

extent acting more and more like one entity – forcing members of the firm to closely follow the policies of the global firm” Humphrey (2009).

The codification and standardization of the assurance profession is primarily done through the International Federation of Accountants (IFAC). The IFAC, through its independent standard setting boards, and in conjunction with the international regulatory community, sets, among others, international auditing and assurance standards and a code of ethics for professional accountants.

The International Standards on Auditing (ISAs) are currently used by more than 100 jurisdictions around the world. These standards are so-called “principles-based” which means that the nature of the international standards is such that it required auditors to exercise professional judgment in applying them. The overall objectives for the auditor are: to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatements, whether due to fraud or error, thereby enabling the auditor to express an opinion on whether the financial statements are prepared in all material respects, in accordance with an applicable financial reporting framework Bik (2010).

Locally, the Ethiopian Expert Relationship of Bookkeepers and Evaluators (EPAAA) was set up by the State as a native expert bookkeeping affiliation Kinfu(1990). Be that as it may, this affiliation has not gained critical headway as it didn't foster the ability to control section into proficient practice Mihretl(2009). Thus, proficient bookkeepers confirmed by perceived proficient relationship of different nations are authorized for public bookkeeping practice in Ethiopia. The Relationship of Sanctioned Affirmed Bookkeepers (ACCA), a UK based proficient bookkeeping body works effectively in the Ethiopian market. Therefore, practically the entirety of the bookkeepers in broad daylight practice are individuals from this affiliation World Bank, (2007).

2.2 Empirical Literature Review

Kimberly A. Dunn School of Accountancy, Florida Atlantic University (2000) conducted a study entitled “Auditor industry specialization and client disclosure”, which planned to gauge the effect of various components on the nature of examining, remembering specialization for a specific industry. The examination tracked down that the evaluators in a specific industry accomplish better on account of their craving to keep a decent standing in the business and to get satisfactory information on the issues of the actual business.

Vanstraelen (2000), university of maastricht conducted a study entitled “The impact of renewable long-term audit mandates on audit quality”, which aimed to determine the impact of the following factors on audit quality, customer retention period, size of firm, audit fees and financial cost of the customer. The study found that the longer the period of customer retention, the lower the probability of issuing a clean report, which negatively affects the quality of the audit.

The authors Bedard (2010) consider that the purpose of the normative recommendations is to grow the market participant’s capacity to observe the audit quality, allowing so the differentiation between the audits companies based on publicly available data and providing incentives for companies to increase the audit quality.

According to Krauss (2011), the increased process of harmonizing accounting and auditing worldwide has led to some similarities in audit practices, respectively audit regulations. First, the globalization process in the business area is accompanied by an attempt to increase the harmonization of accounting and auditing practices. Instead, harmonization and differences in audit practices appear to be under-explored.

Xhensila (2016) present us that the subject of the audit quality has been a blockbuster in the last decades. However, there is only a proof with respect to the organization's review quality. The particular writing gives us more definitions in regards to the review quality. One approach to characterize the review quality is to think about the amplexness of the inspector's report: did the examiner convey a "perfect" assessment when there was an error? Along this line, DeAngelo (1981) characterizes the review quality as a twofold likelihood by which the reviewer can find critical mutilations. Along these lines, were distinguished as accepting components that impact

the review quality: the inspector's capacity to recognize contortions, the techniques utilized and the example size, all of which rely altogether upon the skill and enrichment with advances required for the evaluator.

Bedard (2010) argue that a high audit quality is one issue in accordance with the audit standards and the purpose is to provide a reasonable assurance about the financial statements, respectively they are not materialized incorrectly, due to errors or fraud. Elshafie (2014) indicate that, despite the importance of the concept of audit quality, it is not explicitly defined by the technical standards and the researchers have not reached a consensus understanding of its meaning.

Dechow and Skinner, (2000) classify earnings management into three categories, namely: Fraudulent Accounting, Accruals Management, and Cash Flow earnings management (CFEM) which is more often referred to as Real Earnings Management (REM). Fraudulent Accounting involves accounting choices that violate GAAP; Accumulations The executives includes decisions within GAAP that attempt to "dark" or "cover" genuine monetary execution. Genuine profit the board happens when supervisors attempt activities that include changing a company's fundamental tasks with an end goal to help current period income. Fake bookkeeping and gatherings the board are not cultivated by changing the fundamental financial exercises of the firm yet through the decision of bookkeeping techniques used to address those basic exercises. Dechow and Skinner (2000) further attests that Accumulations can be utilized to change the circumstance of profit acknowledgment, in this way making income either increment or decline.

Many of the previous accounting studies Healy(1985); Jones(1991); Sweeney(1994); Defond and Jiambalvo(1994)) inspected the various inspirations for income the board and explicitly highlight extra plans inspirations, the inspirations to fulfill the obligation contracts, or the inspirations to diminish the political expenses. The acquiring the executives inspirations may exist around the hour of Chief change. As per DeAngelo (1994), another Chief may take a "major shower" in the time of progress to build the likelihood of higher future income against future execution estimation, particularly when low profit in the change year can be accused on the past President. Enormous Shower in bookkeeping is a profit the board method whereby a one-time charge is taken against pay to decrease resources, which brings about lower costs later on Nikolai and Jefferson (2010).

A number of spectacularly large business failures, including Enron and Worldcom (in the US) Cadbury Nigeria PLC and African Petroleum AP (in Nigeria) involved earning management and accounting related scandals. These failures created negative publicity and loss of confidence in the capital market. Recent studies Bradshaw and Sloan (2002) have examined the issue of cash flow versus GAAP earnings and document an increasing rift between the two measures and show that investors typically react more to the cash flow numbers. Lougee and Marquardt (2002) provide support for opportunistic management through their examination of cash flow. Lougee and Marquardt (2002) found that a greater incidence of losses, higher market-to-book and debt-to-equity ratios, greater sales growth, a higher proportion of special items, and greater earnings variability characterize firms reporting cash flow earnings.

Sailendra (2019) characterizes the review quality as the likelihood of an evaluator to discover the customer's bookkeeping framework conflicting, if this is important to ensure for the budget summaries clients, confirming that the review responsibility was done in an expert and autonomous way. Despite the fact that the idea of review quality has been strongly discussed hypothetically, its assessment remains very hazardous. Regarding to this aspect, Caloian (2007) argues that the quality control of the services provided can be carried out in two ways, respectively at the level of professional institutes, but also at the level of the financial audit company.

Donnelly (2003) conducted a study entitled “Auditor acceptance of dysfunctional behavior: An explanatory model using auditors” personal characteristics’ in which they showed that the direct of the review and the turnover of the examiners are two factors to decrease the nature of the review. The untimely suspension of the fruition of the review effects affects the actual calling. The examination presumed that the low execution of the reviewers is in accordance with the acknowledgment of expanding practices prompting lower review quality.

Another study conducted by Krishnan & Schauer (2000) entitled “The Differentiation of quality among Auditors: Evidence from the not- for- Profit sector”, which meant to test the connection between the review quality and the size of the review firm of the non-benefit units. It was presumed that there is a positive connection between the size of the review firm and the nature of the review.

Alam (2000) led an investigation named "View of the friend survey program of the bookkeeping calling: Suggestions and the executives", which expected to test the adequacy of the companion audit, program in creating review quality. The investigation tracked down that the friend survey program added to the improvement of the review calling and self-advancement of the examiners.

Colbert & Murray (1998) implemented a study entitled "The association between auditor quality and auditor size: an analysis of small CPA firms", which showed that there was a positive relationship between the quality of the audit and the size of the audit firm.

AlqamandAlrajabi (1997) led an examination named "The elements which lead to change the outside reviewer in the Jordanian public organizations: Field study", which targets showing whether there is a distinction of perspectives among inspectors, financial backers, and CFO (CFOs). The analyst arrived at a considerable lot of the suggestions that they offer to raise the degree of examining calling, and to expand the nature of its work and elevate it to the necessary level.

The authors Dao (2019) accept that evaluator liabilities will improve the review straightforwardness and eventually lead to a higher review quality, earlier and exact proof gives blended discoveries on the effect of exposure of commitment accomplice ID referenced that the presentation of the review accomplice's particular necessity brought about an improved review quality.

Moreover, Louis and Robinson (2005) recommended that review firm size alone ought not be an excellent determinant of more significant level of review quality that as long as expert guidelines and capabilities are kept up all through the area; in any case, little size review firms might be supplanted essentially in light of the fact that they are less notable, despite the fact that they likely could be giving as high or higher review quality administrations. Along these lines, it is unreasonable to recognize enormous and little review firms independent of the way that bigger review firms have more assets. In a test study, Najjar (2011) analyzed the occurrence of optional accumulations of examined modern organizations in Kenya. The objective of the examination was to explore the impact of customer industry review specialization on outer review quality. They utilized board information got from yearly reports and budget summaries of 65 assembling

organizations for the time of 2005-2009 and apply multiple linear regression analysis using SPSS.

Najjar (2011) distinguished a solid connection between the size of optional gatherings and customer industry review specialization which is one among review firm credits. The aftereffects of their investigation likewise uncovered that when a given review firm has a huge gathering of customers in a similar industry, inspector's aptitude increments and will have inside and out comprehension of the idea of business and dangers in that specific industry.

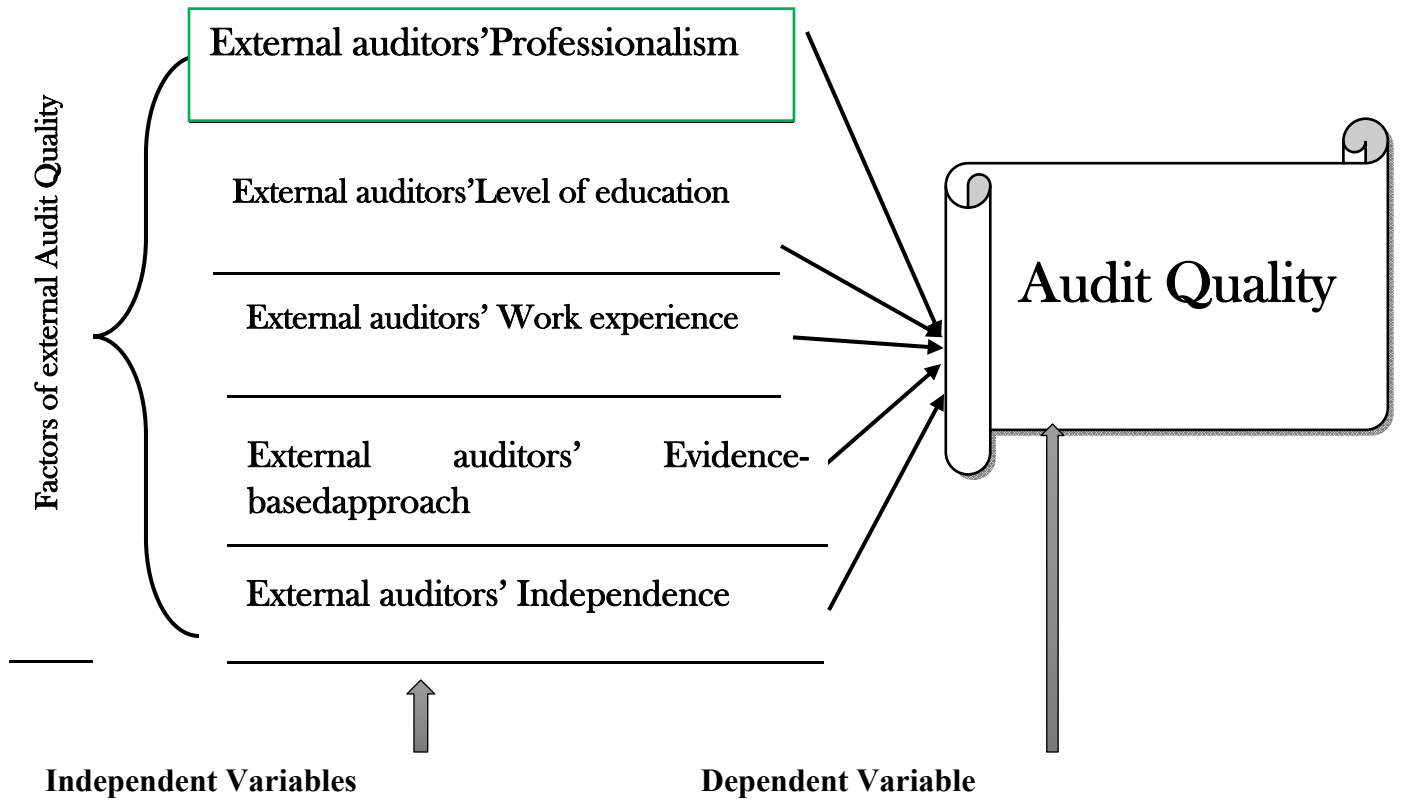
Schauer (2008) given additional proof on effect of review firm-explicit traits on outside review quality for Indian private family firms that covered the period from 1999-2006. The investigation added to the writing which focuses primarily on testing of the relationship between customer industry review specialization, estimated by piece of the pie, and review quality utilizing the Jones (1991) unusual gatherings model, since earlier exploration clarified that it is the best proportion of the optional bit of all out accumulations. The general outcomes recommended that customer review industry experts have more industry aptitude making by sharing accepted procedures and gaining from serving similar industry customers. Hence, this empowers outer examiners to be more viable at recognizing errors in staff working papers during the review survey measure to compel the occurrence of income the executives which is related with higher review quality. Hence, in this way review firms meet their customer needs, since customers consistently need the best review quality.

2.3 Conceptual Framework of the Study

According to Mugenda and Mugenda (2008), conceptual frame work is a concise brief presentation of the linkage between the hypothesized relationships with the real ideas of investigations or thoughts. The conceptual framework of the study specifies the nature of the hypotheses of the study. According to the model, dependent variable is audit quality and the independent variables are External auditors' Professionalism, External auditors' Level of education, External auditors' Work experience, External auditors' evidence-based approach, and External auditors' Independence. Audit quality is affected by External auditors' Professionalism, External auditors' Level of education, External auditors' Work experience, External auditors'

evidence-based approach, and External auditors' Independence. The relations of these variables are supported on the basis of review of literatures.

Figure 2.1 Conceptual Frameworks of the Study



Source: Adopted from Singhal (2014), Dunmire (2012), Deloitte (2007), Ismail and Cieh (2013), and Gul and Fung (2014) and Kassem and Higson (2015)

CHAPTER THREE

RESEARCH METHODS AND DESIGN

Introduction

Research methodology has necessary to provide a reliable and valid research study. In Chapter 3, the student researcher discussed and deliver the method that was used to obtain related information in order to conduct descriptive research. This chapter incorporates research approach, research design, data type and sources, target population and sample size determination, sampling techniques, methods of data collection, constructs measurement such as reliability and validity, the methods of data analysis and ethical consideration.

3.1 Research Approach

According to John(2014) research approaches are plans and the procedures for research that span the steps from broad assumptions to detailed methods of data collection, analysis, and interpretation. The selection of a research approach is also based on the nature of the research problem or issue being addressed, the researchers' personal experiences, and the audiences for the study. There are three basic approaches to research (a) qualitative (b) quantitative (c) mixed methods. According to Christensen (1985) noted that quantitative survey is the most appropriate one to use if the purpose of an investigation is to describe the degree of relationship which exists between the variables (independent and dependent variable).Accordingly, this research is conducted quantitative research approach.

3.2 Research Design

The study adopted descriptive and explanatory research designs. The researchers preferred descriptive research as it is convenient for description of the variables such as determinant of external audit quality in Ethiopia focusing certified audit firms. Therefore, explanatory research design was conducted as it is convenient for an explanation of cause-and-effect relationship between the dependent and independent variables. In addition, this research was adopted quantitative research approach using a structured questionnaire as a data collection and regression analysis as a data analysis tools.

3.3 Data Type and Sources

In this study both Primary and Secondary sources was used in asking information for the study. Primary data was obtained from a structured close ended/ self-administered questionnaire and Secondary information was collected from the previous studies, journals and articles conducted on determinant of external audit quality in Ethiopia focusing on brewery industry and other related studies was used as the source of data for analysis and discussion result.

3.4 Target Population and Sample Size Determination

The targeted population for this study is private Certified Audit Firms found at Addis Ababa and this are the pool of the study. All Certified Audit Firm registered in Accounting and Auditing Board of Ethiopia (AABE) in Addis Ababa district have given the external auditing service. The total number of private Certified Audit Firms found at Addis Ababa in number is 134 right now but, to make the research manageable 30% of the Certified Audit Firms is the focus of this study. And, this percentage is chosen because Mugenda and Mugenda (2003) also notes that a sample size of 10%-30% of the target population for a social study is adequate for research. Therefore, forty (40) private Certified Audit Firms for this study was taken by using simple random lottery methods. This is because to give equal chance for private Certified Audit Firms found in Addis Ababa.

The sample size was considered as representative of the selected Certified Audit Firms employees ((partners, junior auditor, senior auditor and directors) and this would expect as large enough to allow for precision, confidence and to generalize the research finding. Accordingly, 164 respondents was selected out of 280 employees ((partners, junior auditor, senior auditor and directors). So that, the study was used the following sample size determination formula developed by Yemane (1967). It is calculated as follows: $n = N / (1 + N(e^2))$, where, n= sample size, N= Population size, and e= the margin of error. Then at 5% significance level, the total sample size $n = (280 / (1 + 280(0.0025)))$ is approximately equal to 164 employees (partners, junior auditor, senior auditor and directors).

3.5 Sampling Techniques

Non-probability sampling techniques was employed. The respondents was selected using purposive non-probability sampling method. This is also sometimes called judgment sampling where respondents are selected because they have knowledge that is valuable to the research process. That is the student researcher chooses (partners, junior auditor, senior auditor and directors) that hold appropriate characteristics relevant to the research topic and the respondents was selected purposefully. Therefore, in sample size selection, the major concentration was on the quality of respondents and their potential know how to provide rich and relevant information's which is vital for the desired goal and, for the future analysis and interpretation of the study. Thus, in the selected Certified Audit Firms questionnaire was distributed to employees on a walk-in basis to get the service until the expected number of samples from the selected Certified Audit Firms was satisfied.

3.6 Methods of Data Collection

Primary data was collected using a well-designed close ended questionnaire which is designed on an ordinal scale of measurement. Based on the context of brewery industry. The items was measured using a 5-point Likert scale marked as 1= strongly disagree, 2= disagree, 3=somewhat agree, 4= agree and 5= strongly agree. A high score shows the high viability of determinant of external audit quality in Ethiopiaperception while low score suggests low adequacy perception in the scale.

3.7 Reliability and Validity

It is important to make sure that the instrument that we develop to measure particular concept is indeed accurately measuring the variable and then in fact, we are actually measuring the concept that we set out to measure. Therefore, the content validity for this study was addressed through the review of literature and adapting instrument used in the previous research Hair (2007). Aimed at the point that even if the research is repeat, they would end up with similar results or the consistency or dependability of a measurement technique, and it's concerned with the consistency or stability of the score obtained from a measure or assessment overtime and across settings or conditions. If the measurement is reliable, then there is less chance that the obtained score is due to random factors and measurement error Marczyh(2005). According to George and Mallery (2003) Cronbach's alpha is a coefficient of reliability. It is commonly used as a measure

of the internal consistence or reliability of a psychometric test score for a sample of examinees. Cronbach's alpha reliability coefficient normally ranges between 0 and 1.

Table 3.1: Rule of Thumb of Cronbach's Alpha

Cronbach's Alpha	Description
$\geq .9$	Excellent
$\geq .8$ but $< .9$	Good
$\geq .7$ but $< .8$	Acceptable
$\geq .6$ but $< .7$	Questionable
$\geq .5$ but $< .6$	Poor
$\leq .5$	Unacceptable

Source: Zikmund(2010)

3.8 Methods of Data Analysis

The collected data was changed and interpreted in to meaningful information, and statement. So, it was analyzed, processed and interpreted according to the nature of data. Statistical Package for Social Science (SPSS) software version 20 was employed to analyze and present the data through the statistical tools was used for this study, namely descriptive analysis (mean and standard deviation), correlation and multiple regression analysis.

- A. **Descriptive analysis:** The descriptive statistical results was presented by, frequency distributions and percentages to give a condensed picture of the data. This was achieved through summary of statistics, which includes the means and standard deviations values which are computed for each variable in this study.
- B. **Pearson Correlation Analysis:** used when there are two quantitative variables. The possible research hypotheses are that there is a positive linear relationship between the variables, a negative linear relationship between the variables, or no linear relationship between the variables in this study Pearson's correlation coefficient was used to determine the relationships between determinant of external audit quality such as dependent variables and its factors (External auditors' Professionalism, External auditors'

Level of education, External auditors' Work experience, External auditors' evidence-based approach, and External auditors' Independence).

C. **Multiple Regression Analysis:** Multiple regression analysis was used to investigate the Audit Quality i.e., External auditors' Professionalism, External auditors' Level of education, External auditors' Work experience, External auditors' evidence-based approach, and External auditors' Independence.

Model Specification

$$Y=B_0+B_1X_1+B_2X_2+B_3X_3+B_4X_4+B_5X_5+e$$

Where

Y= Audit Quality

$B_0, B_1, B_2, B_3,$ and B_4 are parameters

X1= External auditors' Professionalism

X2= External auditors' Level of education

X3= External auditors' Work experience

X4= External auditors' evidence-based approach,

X5= External auditors' Independence

e= error term

3.9 Ethical Consideration

As suggested by Trochim (2000) and Sekaran (2006), the researcher has ensured the strict adherence of the following ethical conducts: Respondents take part in the research voluntarily and data was collected based on the consent of the individual. The purpose of the research is clearly explained to respondents. Information provided by respondents was treated with strict confidentiality and the researcher ensured that participants remain anonymous throughout the study. The misrepresentation or distortion of the actual data was collected from respondents.

CHAPTER FOUR

DATA PRESENTATION, AND DATA ANALYSIS

Introduction

In accordance with the research questions and research objectives of the study, this chapter presents the findings of the study based on the research design employed in this study. In this respect, the chapter explain the response rate of the respondents, the instrument employed which is employed in this research to find out the reliability of the questions; the descriptive statistics of all the variables used in this study and the results of the estimated parameters of the correlation and regression analysis; the relation between the independent and dependent variables as per the sign and the value of the parameters for the regression model are presented and as well as discussed in detail through SPSS version. In table 4.1 on above shown that a total 164 questionnaire were distributed out of which 152 (92.6%) were properly filled and returned the data was used for analysis purposes.

Table 4.1: Response Rate

Questionnaires	Private Certified Audit Firms	
	Respondents	Percentage
Number of Distributed Questionnaires	164	100%
Number of Returned Questionnaires	152	92.6%

Source: SPSS Result, 2021

4.1 Reliability Test Result

Reliability refers to the degree to which measures are free from random error, and therefore, yield consistent results Zikmund (1997). The scales of the five variables were checked for internal consistency or reliability by applying reverse coding as appropriate and using Cronbach's Alpha in SPSS version. The results of the tests for each scale are shown in table 4.2 in the next page. The instrument was pilot tested on 30 employees of Private Certified Audit Firm within the intended sample. The responses of respondents were scored and the reliability of the tool was determined using Cronbach's Alpha. The questionnaire has a total of 45 questions as shown in the below table. The result indicates that the value of Cronbach's alpha equals to 0.8 proving that the scale is indeed reliable Hair (1992).

Table 4.2: Reliability statistics

S/No	Variables	Number of items	Cronbach's Alpha	Internal consistency
1	External Auditors' Professionalism	13	.734	Acceptable
2	External Auditors level of education	7	.759	Acceptable
3	External Auditors work experience	8	.775	Acceptable
4	External Auditors evidence based approach	4	.759	Acceptable
	External Auditors independence	4	.787	Acceptable
5	Audit Quality	9	.852	Very good

Source: Research data (2021)

4.2 Descriptive Statistics

Descriptive analysis is a set of procedures for gathering, measuring, classifying, computing, describing, synthesizing, analysing and interpreting systematically acquired quantitative data.

4.2.1. Demographic Characteristics

Demographic analysis of the respondents was done in order to describe the characteristics of the respondents in more details. To make it more specific, this part of the study analyzes the proportion of female and male respondents, their age, experience, educational level, work experience, and current position in Private Certified Audit Firms.

Table 4.3: Demographic Characteristics

		Frequency	Percent
Gender	Male	101	66.4
	Female	51	33.6
	Total	152	100.0
Age	25-30	17	11.2
	30-35	34	22.4
	40-45	55	36.2
	45 and above	46	30.3
	Total	152	100.0
Working Experience	1-5 year	11	7.2
	6-10	39	25.7
	11-15	56	36.8
	More than 15	46	30.3
	Total	152	100.0
Educational Status	Bachelor degree	54	35.5
	Masters	89	58.6
	Phd	9	5.9
	Total	152	100.0
Current Position	Partners	44	28.9
	Junior auditor	30	19.7
	Senior auditor	59	38.8
	Directors	19	12.5
	Total	152	100.0

Source: Research data (2021)

As indicated in Table 4.3, 101 of the respondents were male which represent 66.4% of the total respondents, while 51 were females which accounts for 33.6% of the total respondents. The result revealed that males outweigh females in number in Private Certified Audit Firms. Considering age of the respondents, higher number of respondents was in the age between 40-45 years, which represent 36.2%, followed by age of 45 and above years, which represent 30.3%. Respondents between the ages of 30-45 represented 22.4% of the respondents, while the smallest

group 11.2% was those ages between 25-30 years respectively. Based on that, it can be concluded the survey may cover adult's employees. The result has also revealed that majority of the respondents (36.8%) have 11-15 years of work experience in Private Certified Audit Firms, and only 30.3% of the respondents have more than 15 years of work experience, 25.7% of respondents represented 6-10 years of work experience. Finally, 7.2% of respondents represented 1-5 years of work experience. This shows that most of Private Certified Audit Firmsemployees have long years of work experience in the Private Certified Audit Firmsand thus will have reliable information about the audit quality status in the Private Certified Audit Firms, giving more assurance to the quality of data collected through the questionnaires. In terms of educational level 58.6% of the respondents have master's degree, 35.5% respondents represented bachelor degree, 5.9% of respondents represented Phd. So we can deduce, master's degree holders are influential in this research and followed by first degree and PhD degree. This implies that majority of employees are skilled professionals and experts, giving an additional confidence to consider the source data as trustworthy. Regarding to the current position 44(28.9%) of respondents represented partners/principal professionals, 30(19.7%) of respondents represented junior auditor professionals, 59(38.8%) of respondents represented for senior auditor professionals, and 19(12.5%) of respondents are directors.

4.2.2 Descriptive Statistics on Determinants of external Audit Quality

Descriptive analysis is used to obtain existing facts regarding the employees' level of agreement on the determinants of Audit quality in Private Certified Audit Firms using five indicators of external audit quality namely, external auditors' professionalism, external auditors education level, external auditors work experience, external auditors evidence based approach, and external auditors independence. This section presents the respondents' perception on the independent and dependent variable. The respondents were asked to indicate the extent to which they agreed and disagreed to statements relating to the variables under study on a five-point Likert scale (1=Strongly Disagree to 5= strongly agree).

It is taken to identify the differences among the variables and the square root of standard deviation shows the variance. The standard deviation is therefore a measure of how well the mean represents the data. Whereas, small standard deviation means (relative to the value of the mean itself) indicates that the data points are close to the mean.

In this case, larger standard deviation (relative to the mean) indicates that the data points are distant from the mean (i.e. the mean is not an accurate representative of the data) Andy (2010). Similarly, high standard deviation means that the data are wide spread, which means that employee give variety of opinion and the low deviation means that employee express close opinion.

Table 4.4: Range for interpreting quantitative data

Range	Interpretation
1.49 or less	Strongly disagree
1.50-2.49	Disagree
2.50-3.49	Neutral
3.50-4.49	Agree
4.5 or greater	Strongly agree

Source: Upgade and Shende (2012)

4.2.2.1 Descriptive Statistics on Auditors' Professionalism

Series of thirteen questions were presented to respondents to rate their level of agreement with each statement. The questions are designed to examine the level of Auditors' Professionalism of the employees in Private Certified Audit Firms. The below table displays the respondent's level of agreement against their external audit quality based on Auditors' Professionalism.

Table 4.5 Summary of response for Auditors' Professionalism

Items of Auditors' Professionalism	N	Mean	SD.
The external auditors have good communication skills with team formally.	152	3.789	.9394
The external auditors have a strong work ethic.	152	3.250	1.030
Focus on delivery is one of the key factors why the external auditors are engaged.	152	3.605	.9360
When the external auditors embark on an assignment, they seek to deliver on the required tasks	152	4.000	.8764
The external auditors approach issues in a manner which I consider to be professional.	152	3.552	.8672
The external auditors discuss it with the concerned stakeholders/teams first to understand the matter prior to reporting.	152	3.565	.8431
The external auditors present and explain the identified control deficiencies in a manner which I am able to understand.	152	3.914	.9963
The external auditors are professional in everything they do.	152	3.460	.9959
The external auditors remain calm and focused on friendly resolution of the matter at hand.	152	3.625	.8900
I trust that the external auditor will provide a credible report on the audit quality.	152	3.4605	1.02215
I hold the external auditors in high regard due to their operational objectivity.	152	3.4145	.87983
The external auditors have integrity and report their findings with the highest levels of truthfulness.	152	3.4408	.86686
The external auditors feel and act like they are part of my organization.	152	3.5461	1.07247
Aggregate mean of Auditors' Professionalism	152	3.586	0.939

Source: Research data (2021)

According to Upgade and Shende (2012), mean score measurement can be used while interpreting the data; and if Mean Score is 3.50-4.49, implies that the responses of the respondents is agree. Accordingly, in this analysis, the mean or the average response of the respondents about the degree of agreement they had about the external auditors' professionalism was perceived to have a mean of 3.586 (SD=0.939) on a 5-point scale. This shows that the respondents are agree about the Auditors' Professionalism. Since, the obtained result of mean (3.58) is supported by Upgade and Shende (2012) i.e., value 3.50-4.49, implies that the responses of the respondents are agreed. In this case, low standard deviation indicates that the data points

are not distant from the mean (i.e. the mean is an accurate representative of the data). Hence, low standard deviation means that the data are not wide feast, which means that employee scored low deviation means that employee express close opinion. Therefore, the external auditor’s professionalism deviation is below 1. Thus, it is possible to conclude that the respondent’s perception is homogenous.

4.2.2.2 Descriptive Statistics on Auditors’ Level of Education

Series of seven questions were presented to respondents to rate their level of agreement with each statement. The questions are designed to examine the level of Auditors’ Level of Education of the employees in Private Certified Audit Firms. The below table displays the respondent’s level of agreement against their audit quality based on Auditors’ Level of Education.

Table 4.6 Summary of response for Auditors’ Level of Education

Items of Auditors’ Level of Education	N	Mean	SD.
The external auditors engage in meaningful conversations and arguments.	152	3.789	.9394
The analytical reviews done by the external auditors are well informed.	152	3.250	1.030
The professional certifications of the external auditors prove the workforce.	152	3.605	.9360
The staff coming to our organization from the external audit firm are well trained in the latest sector trends.	152	4.000	.8764
Continuous professional education requirements have ensured the external auditors are kept up-to-date.	152	3.552	.8672
When dealing with the external auditors, I do not need to reiterate explanations and discussion on concepts regarding the operations of the audit quality of my organization.	152	3.565	.8431
I can refer to the external auditors for guidance on policy development to guide audit quality implementation due to their wealth of knowledge.	152	3.914	.9963
Aggregate mean of Auditors’ Level of Education	152	3.66785 7	0.926914

Source: Research data (2021)

Vis-à-vis to the above table result, the Respondents' average response to their level of agreement of external auditors’ level of education was perceived to have a mean of 3.667 (SD=0.926) on a 5-point scale. This shows that the respondents are agree about the external Auditors’ education level. Since, the obtained result of mean (3.66) is supported by Upgade and Shende (2012) i.e.,

value 3.50-4.49, implies that the responses of the respondents are agreed. In this case, low standard deviation indicates that the data points are not distant from the mean (i.e. the mean is an accurate representative of the data). Hence, low standard deviation means that the data are not wide feast, which means that employee scored low deviation means that employee express close opinion. Therefore, the external auditor's education level deviation is below 1. Thus, it is possible to conclude that the respondent's perception is homogenous.

4.2.2.3 Descriptive Statistics on Auditors' Work Experience

Series of eight questions were presented to respondents to rate their level of agreement with each statement. The questions are designed to examine the level of auditors' work experience of the employees in Private Certified Audit Firms. The below table displays the respondent's level of agreement against their external audit quality based on auditors' work experience.

Table 4.7 Mean and standard deviation for Auditors' Work Experience

Items of Auditors' Work Experience	N	Mean	SD.
The external auditors bring in new ideas while conducting audits due to their multi-sector exposure.	152	4.217	.8982
Conversations and discussion held with the external auditors are very insightful and informative.	152	3.868	1.071
The recommendations that come from external auditors are usually based on best practices in the sector.	152	3.986	1.029
The value-addition obtained from the external auditors mainly emanates from their vast experience.	152	3.769	.9931
External auditors' depends on the reports and recommendations.	152	3.914	.9274
The external auditors refer for guidance on policy development to guide audit quality implementation	152	4.250	.7301
The external auditors are reliable since they more often than not have faced similar issues.	152	4.223	.7205
External auditors' experience helps the auditors to notice material misstatements.	152	4.098	.9117
Aggregate mean of Auditors' Work Experience	152	4.040	0.910

Source: Research data (2021)

On the subject of the above result, it is believed that the average or average response of respondents to their level of agreement with the external auditor's education level is 4.04 (SD=0.910) on a 5-point scale. This shows that the respondents are agree about the external

Auditors' work experience. Since, the obtained result of mean (4.04) is supported by Upgade and Shende (2012) i.e., value 3.50-4.49, implies that the responses of the respondents are agreed. In this case, low standard deviation indicates that the data points are not distant from the mean (i.e. the mean is an accurate representative of the data). Hence, low standard deviation means that the data are not wide feast, which means that employee scored low deviation means that employee express close opinion. Therefore, the external auditor's education level deviation is below 1. Thus, it is possible to conclude that the respondent's perception is homogenous.

4.2.2.4 Descriptive Statistics on Auditors' Evidence-Based Approach

Series of five questions were presented to respondents to rate their level of agreement with each statement. The questions are designed to examine the level of auditor's evidence-based approach of the employees in Private Certified Audit Firms. The below table displays the respondent's level of agreement against their external audit quality based on auditors evidence-based approach.

Table 4.8 Descriptive statistics (Perception of auditor's evidence-based approach)

Items of Auditors' Evidence-Based Approach	N	Mean	SD.
The external auditors ask relevant questions and review documents that are related to the scope and nature of the audit they are conducting.	152	4.256	.8096
The external auditors seek to obtain sufficient and appropriate audit evidence to back their opinions on the audit quality.	152	4.000	.9349
Evidence collected and reviewed by the external auditors is sufficient to test conformance to selected standards and policies.	152	3.756	.9765
The external auditors present deliverables with verifiable documentation with reference to support documents used and is laid out in an understandable document/report.	152	3.907	.7401
The external auditors ask relevant questions and review documents that are related to the scope and nature of the audit they are conducting.	152	4.256	.8096
Aggregate mean of Auditors' Evidence-Based Approach	152	4.035	0.85414

Source: Research data (2021)

Based on the above result, it is believed that the average or average response of respondents to the degree of consistency of external auditors' evidence-based methods is 4.03 (SD = 0.910) on the scale of 5 points. It can be seen that the respondents are agree about the external Auditors' work experience. Since, the obtained result of mean (4.03) is supported by Upgade and Shende (2012) i.e., value 3.50-4.49, implies that the responses of the respondents are agreed. In this case,

low standard deviation indicates that the data points are not distant from the mean (i.e. the mean is an accurate representative of the data). Hence, low standard deviation means that the data are not wide feast, which means that employee scored low deviation means that employee express close opinion. Therefore, the external auditor’s evidence-based approach deviation is below 1. Thus, it is possible to conclude that the respondent’s perception is homogenous.

4.2.2.5 Descriptive Statistics on Auditors’ Independence

Series of four questions were presented to respondents to rate their level of agreement with each statement. The questions are designed to examine the level of auditor’s independence of the employees in Private Certified Audit Firms. The below table displays the respondent’s level of agreement against their external audit quality based on auditor’s independence.

Table 4.9 Summary of response for Auditors’ Independence

Items of Auditors’ Independence	N	Mean	SD.
The auditor has freedom to develop his/her own audit program, as to steps to be included within the over-all bounds of the engagement.	152	3.907	.8406
The auditor has freedom to develop his/her own audit program, as to steps to be the amount of work to be performed, within the over-all bounds of the engagement.	152	3.756	.9966
The auditor is free from control or undue influences in the selection of areas, activities, personal relationships and managerial policies to be examined.	152	3.625	.9616
The auditor is free from control or undue influence in the statement of facts revealed by the examination or in the expression of recommendations or opinion as a result of the examination.	152	3.894	.8547
Aggregate mean of Auditors’ Independence	152	3.7955	0.913375

Source: Research data (2021)

It is believed that the average or average response of respondents to the degree of consistency between auditors and external auditors on the 5-point scale is 3.79 (SD = 0.913). It can be seen that the respondents are agree about the external auditors’ independence. Since, the obtained result of mean (3.79) is supported by Upgade and Shende (2012) i.e., value 3.50-4.49, implies that the responses of the respondents are agreed. In this case, low standard deviation indicates that the data points are not distant from the mean (i.e. the mean is an accurate representative of the data). Hence, low standard deviation means that the data are not wide feast, which means that employee scored low deviation means that employee express close opinion. Therefore, the

external auditors' independence deviation is below 1. Thus, it is possible to conclude that the respondent's perception is homogenous.

4.2.2.6 Descriptive Statistics on Audit Quality

Series of nine questions were presented to respondents to rate their level of agreement with each statement. The questions are designed to examine the level of audit quality of the employees in Private Certified Audit Firms. The below table displays the respondent's level of agreement against their audit quality.

Table 4.10 Summary of response for audit quality

Items of audit quality	N	Mean	SD.
Awareness of client's industry is achieved during the audit planning stage.	152	3.776	.9778
The firm is responsive to increase the client satisfaction	152	3.697	.9352
The audit work is conducted in compliance with audit standards.	152	3.769	.8493
The audit opinion is made based on prudent work.	152	3.901	.7256
The audit firm is committed to achieve audit quality.	152	3.940	.7740
Senior auditors are involved on each audit assignment.	152	3.822	.8307
Auditors conduct their assignments in high ethical standards.	152	4.151	.8118
Auditors conduct their assignments in a manner of professional skepticism.	152	4.078	.7765
Adequate time relevant to draw opinion is allocated for audit assignments.	152	4.006	.8495
Aggregate mean of Audit Quality	152	3.904444	0.836711

Source: Research data (2021)

The average response of respondents to the degree of consistency between the 5-point auditor and the external auditor was considered to be 3.904 (SD = 0.836). As it can be seen that the respondents are agree about the external audit quality. Since, the obtained result of mean (3.90) is supported by Upgade and Shende (2012) i.e., value 3.50-4.49, implies that the responses of the respondents are agreed. In this case, low standard deviation indicates that the data points are not distant from the mean (i.e., the mean is an accurate representative of the data). Hence, low standard deviation means that the data are not wide feast, which means that employee scored low deviation means that employee express close opinion. Therefore, the external audit quality deviation is below 1. Thus, it is possible to conclude that the respondent's perception is homogenous.

4.3 Inferential Analysis

4.3.1 Correlation Analysis of the Study Variables

Correlation analysis is primarily concerned with finding out whether a significant relationship exists between two variables (Field, 2005). It is used to describe the strength and direction of the linear relationship between two variables. Pearson correlation (commonly called Pearson Correlation Coefficient) is used for the study to investigate a relationship between determinants of external audit quality and audit quality. The value of Pearson product-moment correlation coefficient (r) normally varies between -1 to +1. The sign indicates whether there is a positive correlation (as one variable increase, other also increase) or negative correlation (as one variable increase, other decrease).

According to Field (2005), a coefficient(r) of +1 indicates a perfect positive relationship while -1 indicates a negative relationship. Breaking down the strength of the relationship, values of $r = \pm 0.1$ to $\pm .29$ represent a weak relationship while $r = \pm 0.3$ to ± 0.49 represent a medium relationship while $r = \pm 0.5$ to ± 1.0 indicate a strong relationship. The results of correlation analysis between determinants of external audit quality and external audit quality are depicted in the following two tables.

Table 4.11: Correlation Analysis

Correlations							
		1	2	3	4	5	6
Auditors' Professionalism	Pearson Correlation	1					
	Sig. (2-tailed)						
Auditors' Level of Education	Pearson Correlation	.276**	1				
	Sig. (2-tailed)	.001					
Auditors' Work Experience	Pearson Correlation	.385**	.562**	1			
	Sig. (2-tailed)	.000	.000				
Auditors' Evidence-Based Approach	Pearson Correlation	.319**	.378**	.630**	1		
	Sig. (2-tailed)	.000	.000	.000			
Auditors' Independence	Pearson Correlation	.277**	.251**	.538**	.423**	1	
	Sig. (2-tailed)	.001	.002	.000	.000		
Audit Quality	Pearson Correlation	.405**	.426**	.583**	.427**	.703**	1
	Sig. (2-tailed)	.000	.000	.000	.000	.000	

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

Source: Research data (2021)

Concerning the relationship between the Auditors' Professionalism and Audit quality, Pearson correlation analysis reported that it has .405** at a significance level of 0.1. This stipulates Auditors' Professionalism has a medium and positive relationship with audit quality. Hence, it is possible to conclude that Auditors' Professionalism have a linear relationship with audit quality (this implying that the more staff have good knowledge on the Auditors' Professionalism, it will have more effect on audit quality).

Concerning the relationship between the Auditors' Level of Education and external Audit quality, Pearson correlation analysis reported that it has .426** at a significance level of 0.1. This stipulates Auditors' Level of Education has a medium and positive relationship with external audit quality. Hence, it is possible to conclude that Auditors' Level of Education have a linear relationship with audit quality (this implying that the more staff have good knowledge on the Auditors' Level of Education, it will have more effect on external audit quality).

Concerning the relationship between the Auditors' Level of Education and Audit quality, Pearson correlation analysis reported that it has $.583^{**}$ at a significance level of 0.1. This stipulates Auditors' Level of Education has a strong and positive relationship with audit quality. Hence, it is possible to conclude that Auditors' Work Experience have a linear relationship with audit quality (this implying that the more staff have good knowledge on the Auditors' Level of Education, it will have more effect on audit quality).

Concerning the relationship between the Auditors' Evidence-Based Approach and Audit quality, Pearson correlation analysis reported that it has $.427^{**}$ at a significance level of 0.1. This stipulates Auditors' Evidence-Based Approach has a medium and positive relationship with audit quality. Hence, it is possible to conclude that Auditors' Evidence-Based Approach have a linear relationship with audit quality (this implying that the more staff have good knowledge on the Auditors' Evidence-Based Approach, it will have more effect on audit quality).

Concerning the relationship between the Auditors' Independence and Audit quality, Pearson correlation analysis reported that it has $.703^{**}$ at a significance level of 0.1. This stipulates Auditors' Independence has a strong and positive relationship with audit quality. Hence, it is possible to conclude that Auditors' Independence have a linear relationship with audit quality (this implying that the more staff have good knowledge on the Auditors' Independence, it will have more effect on audit quality).

4.3.2 Parametric Statistical Assumptions

The reason why must have the test is because if the data does not pass classic assumption test, then the result after the data got processed might be misleading or biased Lind, (2012). The examination is called Fundamental Assumption Test that consists of mainly four tests, and those tests are normality, multicollinearity, linearity and homoscedasticity tests Lind, (2012).

4.3.2.1 Multi Collinearity

Multicollinearity refers to the situation in which the independent variables are highly correlated in a way that has undesirable implication on the outcome of regression analysis. According to Robert (2006), when the predictor variables are highly correlated, they share essentially the same information and together, they may explain a great deal of the dependent variable, but may not individually contribute significantly to the model. Thus, the impact of multi collinearity is to

reduce any individual independent variable's predictive power by the extent to which it is associated with the other independent variables Beyan, (2014). Accordingly, Tolerance and Variance Inflation Factor (VIF) values were calculated to check multicollinearity and the result is presented on table 4.12 below. The Tolerance value is an indication of the percentage of variance in the predictor that cannot be accounted for by the other predictors implying the fact that very small values indicate overlap or sharing of predictive power Robert, (2006).

Table 4.12I: Multicollinearity Test

Variables	Tolerance	VIF
Auditors' Professionalism	.831	1.203
Auditors' Level of Education	.674	1.483
Auditors' Work Experience	.402	2.488
Auditors' Evidence-Based Approach	.587	1.705
Auditors' Independence	.690	1.450

Source: Research data (2021)

Multi Collinearity is checked using correlations between the variables in the model. Independent variables show at least some relationship with dependent variable (above 0.3 preferably) Tabachnick and Fidell (2001). In this case all of the scales (Auditors' professionalism, auditors' level of education, auditors' work experience, Auditors' evidence-based approach, and auditors' independence) correlate substantially with audit quality respectively.

4.3.2.2 Assessment of Autocorrelation (Durbin-Watson)

It is a test for correlation error or a test for correlation between variables residuals. In short, this option is important for testing whether the assumption of independent error is tenable/reasonable. The test statistics can vary between 0 and 4 with a value of 2 meaning that the residuals are uncorrelated. A value greater than 2 indicated a negative correlation between adjacent residuals and a value below 2 indicates positive correlation. The size of Durbin-Watson statistics depends on the number of predictors in the model and the number of observations. Field (2009) suggests that the value less than 1 or greater than 3 are definitely a cause for concern; however, values closer to 2 may still be problematic depending on your sample and model. In addition, Garson

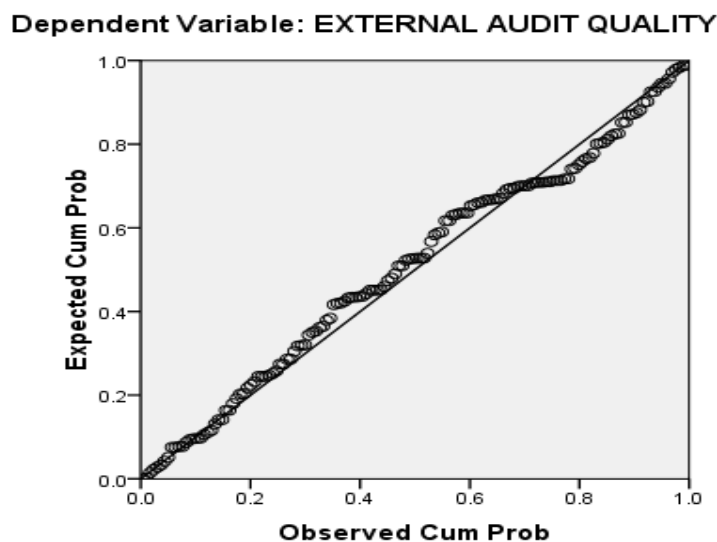
(2012) Durbin Watson should be between 1.5 and 2.5 for independent observations. The value closer to 2 are acceptable Field (2009). Therefore, the Durbin-Watson result has scored 1.788 and it is possible to say acceptable result or fulfill the testing assumption requirement.

4.3.2.3 Linearity Test

Audit quality is assumed to be linearly related with factors of external audit quality dimensions/elements; meaning the dependent variable audit quality is assumed to be impacted with changes in determinants of audit quality elements (the independent variables such as Auditors' professionalism, auditors' level of education, auditors' work experience, Auditors' evidence-based approach, and auditors' independence). The relationship between the two variables should be linear. This means that at a scatter plot, scores should be a straight line (roughly), not a curve Pallant,(2005). The scatter plots of this study show that there is almost linear relationship between the variables. The plots do not show any evidence of non-linearity; therefore, the assumption of linearity is satisfied.

Figure 2. Linearity test

Normal P-P Plot of Regression Standardized Residual



Source: Research data (2021)

4.3.2.4 Normality Test

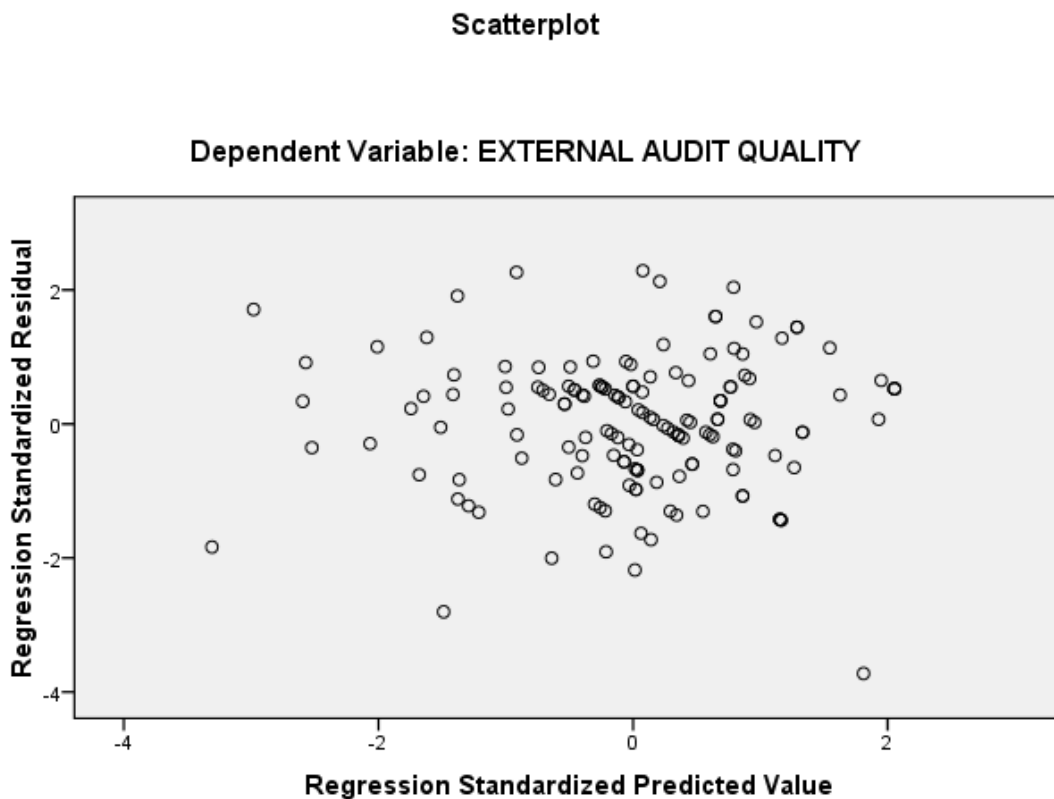
The study used method of assessing normality; graphically (Normal Probability Plot) and numerically (Skewness and Kurtosis). In the Normal Probability Plot, it is hoped that points will lie in a reasonably straight diagonal line from bottom left to top right. This would suggest no major deviations from normality. The scores are normally distributed. Numerically, the evaluation of normality in the data analysis began with exploring the skewness and kurtosis values of the determinants of audit quality and audit quality. Skewness and kurtosis values greater than 1 and less than -1 are considered being abnormally distributed Gamst, Meyers, & Guarino, (2008). Table 4.13 below summarizes the Skewness and Kurtosis values of the constructs. The Skewness and Kurtosis values for the determinants of audit quality elements, namely, Auditors' professionalism, auditors' level of education, auditors' work experience, Auditors' evidence-based approach, and auditors' independence were all below 1 and greater than -1 indicating that the data is normally distributed for these elements. The audit quality also showed Skewness and Kurtosis value of less than 1, and is therefore normally distributed.

Table 4.13: Table Summary of Skewness and Kurtosis Statistics

		Auditors' professionalism	auditors' level of education	auditors' work experience	Auditors' evidence based approach	auditors' independence	Audit Quality
N	Valid	152	152	152	152	152	152
	Missing	0	0	0	0	0	0
Skewness		.291	-.522	-.206	-.694	-1.279	-.351
Std. Error of Skewness		.197	.197	.197	.197	.197	.197
Kurtosis		-.740	.455	-.413	.611	2.022	.959
Std. Error of Kurtosis		.391	.391	.391	.391	.391	.391

Source: Research data (2021)

Figure 4.1: Normality test



Source: Research data (2021)

4.3.3 Multiple Regression Analysis

Multiple regression analysis is employed to examine the determinants of audit quality (Auditors' professionalism, auditors' level of education, auditors' work experience, Auditors' evidence-based approach, and auditors' independence) on audit quality. Multiple regression analysis is chosen because it helps to predict the linear relationship of a dependent variable. Here, the dependent variable is regressed and the independent variables are regressed or, which will show

the influence on the relationship of these variables by one another. Before explaining the table, the effects of values of the coefficient, R- square are discussed briefly.

Coefficient value: It shows the negative or positive effect of the variables. If the coefficient value is positive, it shows that independent variable is affecting the dependent variable in a positive way. If the sign is negative, it shows that the effect is negative.

R-square: R-square is the coefficient of determination; it explains how much variation in the dependent variable is taking place due to the factors that determinants of external audit.

Constant: Constant is basically the intercept. Therefore, the value of constant cannot be ignored but it does not affect the result in a direct or indirect way. It just shows that even if the independent variable has zero value, there will be still some value of the dependent variable.

Probability: Probability and t-statistics basically indicate the same results. Either both of them or just one of them can be taken because in any way the results will show similar indication overall.

Table 4.14: Model summary

Model Summary ^b										
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	.773 ^a	.597	.583	.36707	.597	43.271	5	146	.000	1.788
a. Predictors: (Constant), Auditors' professionalism, auditors' level of education, auditors' work experience, Auditors' evidence-based approach, and auditors' independence										
b. Dependent Variable : Auditquality										

Source: Research data (2021)

This table is showing the variation of variables used in the analysis. R-square which is the coefficient of determinant is telling that how much variation is taking place in external audit quality (dependent variable) due to Auditors' professionalism, auditors' level of education, auditors' work experience, Auditors' evidence-based approach, and auditors' independence (independent variables). When the table is analyzed, it is seen that the value of R-square shows 59.7% change taking place in external audit quality due to the Auditors' professionalism,

auditors' level of education, auditors' work experience, Auditors' evidence-based approach, and auditors' independence. By referring to this analysis, the regression equation for the external audit quality of the Private Certified Audit Firms algebraically formulated as:

Statistical equation as per Model : ($Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \beta_5X_5 + E \dots$)

($Y = .539 + .156X_1 + .171X_2 + .136X_3 - .004X_4 + .545X_5 + .05 \dots$)

Table 4.15: ANOVA

ANOVA ^b						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	29.152	5	5.830	43.271	.000 ^a
	Residual	19.673	146	.135		
	Total	48.825	151			
a. Predictors: (Constant), Auditors' professionalism, auditors' level of education, auditors' work experience, Auditors' evidence-based approach, and auditors' independence						
b. Dependent Variable: External audit quality						

Source: Research data (2021)

According to table 4.15 the analysis of variance (ANOVA) for these data, the F-statistic of the independent variables is 43.271 respectively, which is more than 4 this indicates that the model is overall good fit and significant at $p < 0.01$. This result indicates that there is less than a 0.1% chance that an F-ratio this large would happen, if the directional hypothesis proposed about F-ratio were true. Therefore, it can be concluded that the regression model overall predicts external audit quality significantly well.

Table 4.16: Regression Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity statistics		
	B	Std. Error	Beta			Tolerance	VIF	
1	(Constant)	.539	.276		1.954	.053		
	Auditors' professionalism	.192	.071	.156	2.704	.008	.831	1.203
	auditors' level of education	.153	.058	.171	2.668	.008	.674	1.483
	auditors' work experience	.135	.082	.136	1.642	.103	.402	2.488

Auditors' evidence-based approach	-.003	.059	-.004	-.053	.958	.587	1.705
auditors' independence	.433	.050	.545	8.621	.000	.690	1.450

a. Dependent Variable: external Audit Quality

Source: Research data (2021)

In this study, among the five independent variables three independent variables show significant values whereas, the rest two independent variables show insignificance values of > 0.05 , indicating that the three independent variables making a significant unique contribution to external audit quality. The larger value of Beta coefficient that an independent variable has brings the more supports to the independent variable as the more important determinant in predicting the dependent variable. Hence, for the three independent variables making positive and significant contributions, Auditors' professionalism, auditors' level of education, and auditors' independence the beta values were 0.156, 0.171, and 0.545 respectively (All the measures are statistically significant). This indicated that the biggest unique contribution to external audit quality has made by auditors' independence followed by auditors' level of education, and Auditors' professionalism. Whereas, the auditors' work experience and Auditors' evidence-based approach have a positive and negative with insignificant values has scored (.136, $p>0.05$, and $-.004$, $p>0.05$) correspondingly.

Interpretation in Terms of Research Hypotheses

The student researcher has tested research hypotheses as

H1: There is a significant and positive effect of Auditors' professionalism on external Audit Quality

As it is shown on Table 4.16 above, the β coefficient value was calculated as 0.156, which indicates that keeping other factors constant, a unit of change in Auditors' professionalism causes of 15.6% improvement on external audit quality. Besides, as displayed on same table, the t value was 2.704 at p value 0.008. As discussed above, if the t value greater than 2, and $p<0.05$, it is significant to the prediction of the dependent variable. Therefore, from the findings, it can be concluded that the influence of Auditors' professionalism on external audit quality is statistically

significant, in case of Private Certified Audit Firms, and this result leads to accept directional hypothesis.

The result of Auditors' professionalism impact on external Audit Quality in this study consistency with similar study made by Provita Wijayanti, (2019) Rustam Hanafi Economic Faculty of Unissula, on "determinant of quality audit for the corruption's prevention on the government audit institute in central java, Indonesia"

H1: There is a significant and positive effect of auditors' level of education on external Audit Quality

As it is shown on Table 4.16 above, the β coefficient value was calculated as 0.171, which indicates that keeping other factors constant, a unit of change in auditors' level of education causes of 17.1% improvement on external audit quality. Besides, as displayed on same table, the t value was 2.668 at p value 0.008. As discussed above, if the t value greater than 2, and $p < 0.05$, it is significant to the prediction of the dependent variable. Therefore, from the findings, it can be concluded that the influence of auditors' level of education on external audit quality is statistically significant, in case of Private Certified Audit Firms, and this result leads to accept directional hypothesis.

The result of auditors' level of education impact on external Audit Quality in this study consistency with similar study made by Provita Wijayanti, (2019) Rustam Hanafi Economic Faculty of Unissula, on "determinant of quality audit for the corruption's prevention on the government audit institute in central java, Indonesia".

H1: There is a significant and positive effect of auditors' work experience on external Audit Quality

As it is shown on Table 4.16 above, the β coefficient value was calculated as 0.136, which indicates that keeping other factors constant, a unit of change in auditors' work experience causes of 13.6% worsen or deteriorate on external audit quality. Besides, as displayed on same table, the t value was .103 at p value 1.03. As discussed above, if the t value less than 2, and $p > 0.05$, it is insignificant to the prediction of the dependent variable. Therefore, from the

findings, it can be concluded that the influence of auditors' work experience on external audit quality is statistically insignificant, in case of Private Certified Audit Firms, and this result leads to reject the directional hypothesis.

The result of auditors' work experience impact on external Audit Quality on this study contradict with similar study made titled "determinants of external auditors' choice in Nigerian quoted manufacturing companies" by Johnson Kolawole Olowookere (2016).

H1: There is a significant and positive effect of Auditors' evidence-based approach on external Audit Quality

As it is shown on Table 4.16 above, the β coefficient value was calculated as -0.004, which indicates that keeping other factors constant, a unit of change in Auditors' evidence-based approach causes of -0.4% worsen or deteriorate on external audit quality. Besides, as displayed on same table, the t value was -.053 at p value .958. As discussed above, if the t value greater than 2, and $p > 0.05$, it is insignificant to the prediction of the dependent variable. Therefore, from the findings, it can be concluded that the influence of Auditors' evidence-based approach on external audit quality is statistically insignificant (this infers to the claim that a result from data generated by testing is not likely to occur, in case of Private Certified Audit Firms), and this result leads to reject the directional hypothesis.

The result of Auditors' evidence-based approach impact on external Audit Quality on this study contradict with similar study made titled "The Determinants Factors on Audit Quality: A Theoretical Approach" by Andreea Claudia Crucean Camelia Daniela Hategan West University of Timisoara, Romania (2019)

H1: There is a significant and positive effect of auditors' independence on external Audit Quality.

As it is shown on Table 4.16 above, the β coefficient value was calculated as 0.545, which indicates that keeping other factors constant, a unit of change in auditors' independence causes of 54.5% improvement on external audit quality. Besides, as displayed on same table, the t value was 8.621 at p value 0.000. As discussed above, if the t value greater than 2, and $p < 0.05$, it is significant to the prediction of the dependent variable. Therefore, from the findings, it can be

concluded that the influence of auditors' independence on external audit quality is statistically significant, in case of Private Certified Audit Firms, and this result leads to accept directional hypothesis.

The result of impact of auditors' independence on external Audit Quality on this study consistency with similar study made by TensaeNebiye (June 2017), in "The determinants of external audit quality: A case study of Ethiopian audit firms" at Addis Ababa University.

Table 4.14: Hypothesis Summary

Hypothesis	Analytical Model	Outcome	Reason
H1: Auditors' professionalism has a positive and effect on External audit quality.	Regression analysis	Supported directional hypothesis	$\beta = .156$; $P < 0.05$
H1: Auditors' level of education has a positive and effect on External audit quality.	Regression analysis	Supported directional hypothesis	$\beta = .171$; $P < 0.05$
H1: Auditors' work experience has a positive and effect on External audit quality.	Regression analysis	Reject directional hypothesis	$\beta = .136$; $P > 0.05$
H1: Auditors' evidence-based approach has a positive and effect on External audit quality.	Regression analysis	Reject directional hypothesis	$\beta = -.004$; $P > 0.05$
H1: Auditors' independence has a positive and effect on External audit quality.	Regression analysis	Supported directional hypothesis	$\beta = .545$; $P < 0.05$

Source: Computed from the Questionnaire, 2021"

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSION, AND RECOMMENDATION

5.1 Summary of Findings

- The mean score of Auditors' professionalisms is 3.586; this indicated that employees were enough displaying the ideal levels of Auditors' professionalisms like the conduct, aims, or qualities that characterize or mark a profession or a professional person. It is the type of behavior and level of excellence and competence that one would expect from a professional person or the combination of all qualities that are connected with trained and skilled people in a particular field at Private Certified Audit Firms.
- The mean score of auditors' levels of education is 3.667; this indicated that employees were not enough presenting the ideal levels of auditors' levels of education such as the cumulative schooling that one has acquired over time transformational leadership behavior at Private Certified Audit Firms.
- The mean score of auditors' work experience is 4.040; this indicated that employees were not enough showing the ideal levels of auditors' level of education which means the sum-total of both number of years worked and the specific relevant experience a person has undergone while working on a particular role in an organization or industry at Private Certified Audit Firms.

- The mean score of Auditors' evidence-based approach is 4.035; this indicated that employees were not enough exhibiting the ideal levels of Auditors' evidence-based approach and this indicates that the rational method for reaching reliable and reproducible audit conclusions in a systematic audit process. Audit findings and audit conclusions should be based on audit evidences that are verifiable at Private Certified Audit Firms.
- The mean score of auditors' independences is 3.79; this indicated that employees were not enough demonstrating the ideal levels of auditors' independences which indicates the being one of the fundamental principles underlying the auditor's work at Private Certified Audit Firms.
- The mean score of audit quality is 3.90; this indicated that employees were not enough revealing the ideal levels of audit quality applying through the nature of review, through the idea of review hazard, as decreasing the reviewer's danger of revelation, which thus lessens the danger of conclusive review at Private Certified Audit Firms.
- Results of Pearson's Product Moment Correlation Coefficient revealed that, Auditors' professionalism has a positive and significant correlation with external audit quality. Thus, more auditors' professionalism in a job lead to higher external audit quality.
- Results of Pearson's Product Moment Correlation Coefficient revealed that, auditors' level of education has a positive and significant correlation with external audit quality. Thus, more auditors' level of education in a job lead to higher external audit quality.
- Results of Pearson's Product Moment Correlation Coefficient revealed that, auditors' work experience has a positive and significant correlation with external audit quality. Thus, more auditors' work experience in a job lead to higher external audit quality.
- Results of Pearson's Product Moment Correlation Coefficient revealed that, Auditors' evidence based approach has a positive and significant correlation with external audit quality. Thus, more Auditors' evidence based approach in a job lead to higher external audit quality.
- Results of Pearson's Product Moment Correlation Coefficient revealed that, auditors' independence has a positive and significant correlation with external audit quality. Thus, more auditors' independence in a job lead to higher external audit quality.
- Regarding to the regression result, the findings show that Auditors' professionalism significantly explains 15.6% of the variation in external audit quality. Therefore H1: there

is significant effect of Auditors' professionalism significantly on external audit quality is supported and conclude that Auditors' professionalism significantly has a positive and significant effect on external audit quality.

- Regarding to the regression result, the findings show that auditors' level of education significantly explains 17.1% of the variation in external audit quality. Therefore H1: there is significant effect of auditors' level of education on external audit quality is supported and conclude that auditors' level of education has a positive and significant effect on external audit quality.
- Regarding to the regression result, the findings show that auditors' work experience insignificantly explains 13.6% of the variation in external audit quality. Therefore H1: there is significant effect of auditors' work experience on external audit quality is rejected and conclude that auditors' work experience has insignificant effect on external audit quality.
- Regarding to the regression result, the findings show that Auditors' evidence based approach insignificantly explains -.04% of the variation in external audit quality. Therefore H1: there is significant effect of Auditors' evidence based approach on external audit quality is rejected and conclude that Auditors' evidence based approach has insignificant effect on external audit quality.
- Regarding to the regression result, the findings show that auditors' independence significantly explains 54.5% of the variation in external audit quality. Therefore H1: there is significant effect of auditors' independence on external audit quality is supported and conclude that auditors' independence has a positive and significant effect on external audit quality.
- In overall, the results revealed that all independent variables accounted for 59.7% of the variance in external audit quality ($R^2 = 0.59.7$). Thus, 59.7% of the variation in external audit quality can be explained by the five dimensions and other unexplored factors may limit external audit quality which accounts for about 40.3%.
- Moreover, from the findings of this study, researcher found out that not all of the factors of external audit quality have positive and significant effects on external audit quality. Out of the five external audit quality factors three factors (Auditors' professionalism, auditors' level of education, and auditors' independence) have positive and significant effects on external audit

quality. However, auditors' work experience and Auditors' evidence based approach have a positive and negative with insignificant effect on external audit quality.

5.2 Conclusion

Based on the aforementioned summary of the finding the following conclusions were proposed as follows.

- Professionalism of the external auditors was found to have a great influence on the external audit quality of certified audit firms. This is mainly through the way the external auditors communicate and relate with the company, their approach to contentious issues, focus on delivery, impartiality and unbiased judgment.
- The study also revealed that the level of education of external auditors had great influence over the audit quality of certified audit firms with their training, continuous professional education requirements and their informed interactions and analytical reviews being cited as the main indicators desirable to the respondents. Significant impact is achieved from conversations/interactions with external auditors along with the analytical reviews carried out when conducting audits.
- The research results showed that external auditors work experience also has a insignificant influence over how the audit quality being implemented by the external auditors. The vast multi sector exposure, insightful and informed recommendations didn't found to be greatest value additions brought about by the external auditors which was found to be eliminating the audit quality.

- The study further concludes that external auditor's evidence-based approach influences the audit quality of the certified audit firms. Majority of the respondents not yet support that the external auditors ask relevant questions and review documents that are related to the scope and nature of the audit they are conducting and that they seek to obtain sufficient and appropriate audit evidence to back their opinions on the audit quality is still challenging. Finally, the study concludes that the external auditor's evidence-based approach had the weak influence on the audit quality of the certified audit firms.

5.3 Recommendations

Based on the findings and conclusion of the study, the following sound recommendations are forwarded to alleviate or at least to minimize currently encountered problems in the audit firms with related to determinants of external audit quality.

- External auditors should give more emphasis on professionalism, level of education, relevant work experience and evidence-based approach to auditing as these are key pillars used in assessing their audit quality by certified audit firms.
- External auditors should ensure that client engagement in form of communication, issue resolution, focus on delivery and credibility of deliverables are upheld as these forms the key indicators or professionalism from certified audit firm's management perspective.
- The study farther recommends that the external auditors should embrace multi-sectorial exposure and experiences which keeps them abreast with the latest developments and practices
- For avoidance of doubt and protection of repute, external auditors should always seek to obtain sufficient and appropriate audit evidence to back their opinions on the audit quality.
- Assigning different person on working group to make on check the work of the other instead of letting one to audit his/her own to defend auditors' independence from a few review threats. Assigning different engagements as well as for repeated audit engagement can also encourage as it can also help the audit firm to reduce the danger of familiarity create resulted from friendly and long relationship between audit staff and client employees and/or management.

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Questionnaire Part
Addis Ababa University
School of Graduate Studies

Dear Respondents

First of all, my sincere gratitude goes to you. I am working on my thesis for Master of Science in accounting and Finance at the Addis Ababa University College of Business and Economics and the title of my research is: *“Determinants of external Audit quality: The Case of private Certified Audit Firms”*.

Thank You in Advance for Your Cooperation

Direction

- ✓ There is no need to write your name or other identity
- ✓ Your response would be kept confidential and was used only for academic purpose
- ✓ Please respond to the item in the questionnaire by putting a tick mark (✓) inside the box.

PART ONE: DEMOGRAPHIC VARIABLE

1. Gender:

Male Female

2. Age:

20 - 25 30-35
25 -30 35-40
40-45 45 and above

3. Level of Education:

Grade 12 &below Diploma Bachelor Degree Masters PHD

4. Work Experience in External Audit:

1-5 year 6-10-year 15 year More than 15 years

5. Current Position:

Partners Junior auditor Senior auditor Director

PART TWO: Determinants of External Audit quality

Please indicate your level of agreement (whether you agree or disagree) with each statement using the scale below as a guide: put (√) on your selection.

1= Strongly Disagree 2= Disagree 3= Somehow Agree 4= Agree 5= Strongly Agree

S/N	Determinants of Audit Quality	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
I.	EXTERNAL AUDITORS' PROFESSIONALISM					
1	The external auditors have good communication skills with team formally.					
2	The external auditors have a strong work ethic.					
3	Focus on delivery is one of the key factors why the external auditors are engaged.					
4	When the external auditors embark on an assignment, they seek to deliver on the required tasks					
5	The external auditors approach issues in a manner which I consider to be professional.					
6	The external auditors discuss it with the concerned stakeholders/teams first to understand the matter prior to reporting.					
7	The external auditors present and explain the identified control deficiencies in a manner which I am able to understand.					
8	The external auditors are professional in everything they do.					
9	The external auditors remain calm and focused on friendly					

	resolution of the matter at hand.	
10	I trust that the external auditor will provide a credible report on the audit quality.	
11	I hold the external auditors in high regard due to their operational objectivity.	
12	The external auditors have integrity and report their findings with the highest levels of truthfulness.	
13	The external auditors feel and act like they are part of my organization.	
	EXTERNAL AUDITORS' LEVEL OF EDUCATION	
1	The external auditors engage me in meaningful conversations and arguments.	
2	The analytical reviews done by the external auditors are well informed.	
3	The professional certifications of the external auditors prove the workforce.	
4	The staff coming to our organization from the external audit firm are well trained in the latest sector trends.	
5	Continuous professional education requirements have ensured the external auditors are kept up-to-date.	
6	When dealing with the external auditors, I do not need to reiterate explanations and discussion on concepts regarding the operations of the audit quality of my organization.	
7	I can refer to the external auditors for guidance on policy development to guide audit quality implementation due to their wealth of knowledge.	
	EXTERNAL AUDITORS' WORK EXPERIENCE	
1	The external auditors bring in new ideas while conducting audits due to their multi-sector exposure.	
2	Conversations and discussion held with the external auditors are very insightful and informative.	
3	The recommendations that come from external auditors are usually based on best practices in the sector.	
4	The value-addition obtained from the external auditors mainly	

	emanates from their vast experience.	
5	External auditors' depends on the reports and recommendations.	
6	The external auditors refer for guidance on policy development to guide audit quality implementation	
7	The external auditors are reliable since they more often than not have faced similar issues.	
8	External auditors' experience helps the auditors to notice material misstatements.	
.	EXTERNAL AUDITORS' EVIDENCE-BASED APPROACH	
1	The external auditors ask relevant questions and review documents that are related to the scope and nature of the audit they are conducting.	
2	The external auditors seek to obtain sufficient and appropriate audit evidence to back their opinions on the audit quality.	
3	Evidence collected and reviewed by the external auditors is sufficient to test conformance to selected standards and policies.	
4	The external auditors present deliverables with verifiable documentation with reference to support documents used and is laid out in an understandable document/report.	
.	EXTERNAL AUDITORS' INDEPENDENCE	
1	The auditor has freedom to develop his/her own audit program, as to steps to be included within the over-all bounds of the engagement.	
2	The auditor has freedom to develop his/her own audit program, as to steps to be the amount of work to be performed, within the over-all bounds of the engagement.	
3	The auditor is free from control or undue influences in the selection of areas, activities, personal relationships and managerial policies to be examined.	
4	The auditor is free from control or undue influence in the statement of facts revealed by the examination or in the expression of recommendations or opinion as a result of the examination.	
.	AUDIT QUALITY	

1	Awareness of client's industry is achieved during the audit planning stage.	
2	The firm is responsive to increase the client satisfaction	
3	The audit work is conducted in compliance with audit standards.	
4	The audit opinion is made based on prudent work.	
5	The audit firm is committed to achieve audit quality.	
6	Senior auditors are involved on each audit assignment.	
7	Auditors conduct their assignments in high ethical standards.	
8	Auditors conduct their assignments in a manner of professional skepticism.	
9	Adequate time relevant to draw opinion is allocated for audit assignments.	

THANK YOU FOR YOUR COOPERATION!!