



**ST. MARY'S UNIVERSITY
SCHOOL OF GRADUSTE STUDIES**

**THESIS ON THE ASSESSMENT OF EXTERNAL AUDIT
PRACTICE IN ETHIOPIA: IN THE CASE OF RIVATE AUDIT
FIRMS IN ADDIS ABABA**

**BY:
ELFINESH TSEGAW MINYLU**

**June, 2023
ADDIS ABABA, ETHIOPIA**

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**A THESIS SUBMITTED TO ST.MARY'S UNIVERSITY SCHOOL OF
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DECLARATION

I, Elfinesh Tsegaw, declare that “**the assessment of external audit practice in Ethiopian: in the case of private audit firms in Addis Ababa**” is my original work, prepared under the guidance of Asemamaw Geta. (Asst. Professor) all sources of materials used for the thesis have been duly acknowledged. I further confirm that the thesis has not been submitted either in part or in full to any other higher learning institution for earning any degree.

Researcher's: Name Elfinesh Tsegaw

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Date _____

St. Mary's University, Addis Ababa

JUNE, 2023

STATEMENTS OF CERTIFICATION

This is to certify that the thesis prepared by **Elfinesh Tsegaw** entitled “**the Assessment of External Audit practice in Ethiopia: the case of private audit firms in Addis Ababa**”, in partial fulfillment of the requirement for degree of Masters in Accounting and Finance fulfills with the regulation of University and meets the accepted standards with respects to originality and quality.

Name of Advisor: Asemamaw Geta. (Ass. Professor)

Signature _____

Date _____

St. Mary’s University, Addis Ababa

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ABSTRACT

The purpose of this study is to assess the factors that may affect the audit quality of external private audit firms in Ethiopia, focusing on the effect of expertise and independence on audit quality. To achieve the objective, the study used a mixed research method and tested a sample survey questionnaire distributed to auditors working in private audit firms in Ethiopia. The SPSS 20 version statistical package was used in the study using simple random sampling to obtain a reliable response. The surveys were selected to be closed ended and personal interviews were conducted with those who are currently working and understanding of the practice. The information obtained from the questionnaire was analyzed using descriptive statistics, and the interview material was qualitatively interpreted. The results of the study show that auditors are responsible for the quality of the audit during the audit and are legally responsible for what is subsequently observed in the audited annual accounts. Currently, auditors in the field are positively inclined towards the most positive practices, but the lack of enforcement and training systems has resulted in a lack of practice in the field. The solutions to most practice problems appear to be strengthening government control of the practice and training operators to meet global standards.

Key words: audit practice, oversight, AABE, audit firms, external audit, Professional Ethics.

LIST OF ACRONYMS

AABE	Accounting and Auditing Board of Ethiopia
ACCA	Association of Chartered Certified Accountants
ASC	Audit Service Corporation
EEAA	Ethiopian External Auditor Association
EPAAA	Ethiopian Professional Association of Accountants and Auditors
GAAP	Generally accepted accounting principles
GAAS	Generally accepted auditing standards
IAASB	International auditing and assurance standards board
IASB	International Auditing Standard Board
IESBA	International Ethical Standard Board of Accountants
IFAC	International Federation of Accountants
IFRS	International Financial Reporting Standards
ISA	International Standards on Auditing
OFAG	Office of the Federal Auditor General

CHAPTER ONE

1.1. Introduction

This section of the research presents the introduction and background of the study, statement of the study, research objectives, significance of the study, the scope, overview of methodology, limitations of the study as well as the organization of the study.

1.2. Background of the Study

An external audit, defined as a company audit, is a systematic and independent review of documents, operations, and performance by an auditor. Expressing an independent opinion on a series of financial statements is very common. Good auditing practice enables investors, creditors, bankers, and others to use financial statements with confidence. Although the audit does not guarantee the correctness of the financial statements, it provides users with sufficient assurance that the financial statements of an economic entity provide correct and sufficient information about its financial position, business activity, and changes in financial position in accordance with accounting rules. An audit increases users' confidence that the financial statements are free from material error and fraud because the auditor is independent, the purpose of an audit of financial statements is to enable the auditor to express an opinion on whether the financial statements have been prepared with material respect to comply with the applicable financial reporting framework. An audit of financial statements is an example of an assurance engagement (Sikka, 2009).

The information contained in the annual accounts of the company is mainly intended for the owners. However, many others use the data for different purposes. Company management uses it to make decisions, and lenders and creditors examine it to determine the level of safety of their money. Government levies tax on prima facie claims (ACCA)

The external auditors are qualified and conduct their audits independently in accordance with (ISA, 2005). External auditors play an important role in tax collection by reducing tax evasion, tax evasion, and protection. Tax evasion cannot be minimized by the Minister of Revenue, but for that, the quality assurance of the external auditor's accounts is also necessary.

As we know, taxes are the main source of income for the government. External auditor good In practice, the same external auditors play an important role in increasing the tax liability, whose effectiveness in collecting taxes may differ, in order to avoid unnecessary tax liability in the future by reconciling the client's accounting report with the tax law and the order of the Minister of for various reasons, such as the amount of the audit fee of the company and not knowing the background of the client, external auditors usually play a key role in the effectiveness of taxation.

An important role-play is to play the role of an outsider reviewing the accounts and making a statement to allay doubt by giving credence to certain news that the consumer of the information can act well to create a trust. To achieve this goal, the external audit provides the opportunity to be able to reject the assumption that the external person who controls financial accounting is an authorized person who can tolerate or correctly assess the impact of the financial management of the company of the manager due to the added oral professional knowledge, accounting experience and experience related to financial rules (Sikka, 2009).

According to the International Contact Auditing Standards published by the International Auditing and Assurance Standards Board (IAASB), the external audit bear beautifies the self-belief of a different consumer when it comes to a non-cash affidavit by pressuring or coercion. opinion Considering the action, they must decide whether they can obtain reasonable assurance that the financial statements are free from material misstatement, whether due to fraud or error (ISA 700) Over the years, various researchers such as (Mihret., 2010),(Beyene, 2007) and(Mudessir, 2009) studied their various qualifications in-depth on the financial accounting practices of internal and external auditors in Ethiopia.

In order to obtain the necessary starting points to determine the desired financial stability, it is essential to develop good audit practices, the main objective of which is to ensure that all parties are responsible for the performance of administrative tasks. Developing good auditing practices for auditors could offer them the opportunity to operate in a more ethical business environment, showing their real added value to improve the financial reporting process. (Beyene2007), Based on the above discussions, there is a need to conduct comprehensive research on the audit practices of selected private audit firms in Ethiopia.

At the end of the study, the author hopes that the reader of this document will have an equally comprehensive or at least a better understanding of the functioning of the audit sector in Addis Ababa, and since almost all of them are located in the capital, will be able to draw conclusions from various regions of the country, especially how the understanding and application of important auditing principles can affect the operations of this company.

1.3. Statement of the problem

Potential compromise in audit practice, when an audit firm provides audit services to an audit client, is a primary concern when there is a gap between the auditor's understanding of the external audit practice that should be used and what is currently being used. This concern is mainly due to the conflict of interest between the agent and the owner, and how this difference in practice and reality affects government revenue, control, and how the same difference affects the relationship between audit quality and audit practice as auditors is a primary concern in this study (Khaddash, 2013). Although other studies tried to address this topic, most followed general studies and did not look at the topic from the perspective of the auditor perception, which is done in this study with a sector-specific analysis.

Audit firms are expanding rapidly across the city, although market forces will deal with those who do not provide satisfactory service to their clients, the audit sector is too important to be left to market forces because, as stated above, firms can affect shareholder welfare and government revenues. Some previous works have shown that differences in perception and implementation have a negative effect on practice as a whole, and this difference is more widely observed in developing countries. Because the differences were not precisely defined and the practice was not pointedly ignored, efforts to address the problem stalled.

Although there is a regulatory body such as the Ethiopian Professional Accounting and Auditing Association (EPAAA), and the Accounting and Auditing Board of Ethiopia (AABE) appointed by the government, the industry and regulatory body controls, and to be expected, this has resulted in quite a few companies acting in the interests of individuals and management rather than Since the practice is still in its infancy in the city and the countryside, we have to face some

problems, some of which have already been discussed above, but government and company-level supervision, and communication between various people are also important, control levels and information gaps. The study focused on specific problems that are related to the professional ethics, roles and responsibilities of auditors, and how that affects the audit practice as a whole. It also explored on the ways these problems could be addressed. The findings and recommendations can be considered as contributions to the literature as a comprehensive research finding on the impact of audit firms and their audit practices

1.4. Research Question

In order to assess the current audit practices of selected private audit firms in Ethiopia, the following research questions are formulated to conduct the study.

- What is the role and responsibility of external private auditors in practicing audit?
- What are some of the limitations External Auditors in their professional duties?
- Is ERCA uses audited financial statements prepared by audit firms for tax purposes?

1.5. Objective of the study

1.5.1. General Objective

The main objective of the study is to assess the external auditors in audit practice in Ethiopia. In case of private audit firms in Addis Ababa

1.5.2. Specific Objectives

Based on the general objective, the following are specific Objective answered by the research

- To assess whether external private auditors fulfill their professional role and responsibility in practicing audit
- To understands the limitations that the private auditors encountered in the performance of their professional duties.
- To assess whether ERCA uses audited financial statements prepared by audit firms for tax purposes.

1.6. Significance of the study

The purpose of this study is to determine the assessment of external auditors to audit practice and increase the reliability of published financial statements. Research has the following meaning; the study helps stakeholders in the business environment to identify its level of accountability and cross-checks professional accounts so that they fulfill their responsibilities according to rules and regulations and the Code of Professional Ethics. Auditors are independence from the influence of their clients to produce a quality audit report, which plays an important role in practicing audit. It also provides audit firms with positive information on how to perform the practice in the country. It can be used to examine the current state of audit firms in Ethiopia with a global view of the profession. Raising the awareness of the general public and the control to check this survey is very important for the government because it helps to find out the exact tax liability of the taxpayers Contribution to the development of the profession in Ethiopia. Finally, it can be used as a reference for further research.

1.7. Scope of the study

This study is specifically limited to audit firms operating in Addis Ababa. The study focuses on evaluating the credibility of external audit firms in audit practice in Ethiopia and providing assurance services to the corporate sector, state-owned enterprises, other multinationals and local NGOs. In most cases, however, these private auditing companies do their services to the state or public administrative organizations whose budget comes from the state treasury.

1.8. Limitation of the study

Due to the current expansions of audit firms, the research did not manage to include all audit firms that are existing in the nation. In addition to increased number of audit firms, identifying better-performing audit firms was difficult because the classification system based on performance is no more existing. For these reasons, the research is limited to the type of audit firms represented to this study.

Moreover, it has been difficult to find previous research done on the area of study and there is insufficient literature on the perspectives of auditors on the audit practice in the context.

Based on the limitations of the research mentioned above, the researcher has made great efforts to understand the audit practice with role and responsibility and independence of the auditors, to design the research as appropriately as possible, and to achieve certain objectives.

1.9. Organization of the paper

The study was organized into five chapters. Chapter one presents the introduction aspect of the research which includes: background of the study, statement of the problem, objectives, research questions and, scope and limitation of the study, significance of the study and organization of the paper itself. Chapter two contains a review of literature of most significant theoretical and empirical studies. Chapter three concerned with the research methodology that incorporates research design, research approach, sampling techniques, data collection methods and data analysis method. Chapter four consists of data presentation and analysis. And the last chapter, chapter five devoted to summary, conclusion and recommendation.

CHAPTER TWO

2. REVIEW RELATED LITERATURES

2.1. Introduction

As stated in the above chapter, the main objective of this study is to assess the external audit perception of private audit firms operating in Ethiopia and its overall impact on the audit practice they provide. This chapter provides the reader with an overview of the various areas of previous and existing literature related to various variables such as Governmental oversight, competition and customer satisfaction and the auditor's training and experience with the objective of audit perception. This chapter will help the readers to understand the concepts related to this study as well develop your knowledge from the opinions of various researchers and authors in relation to the substance under study.

The study has three sections: Section 2.2. Theoretical framework, Section: 2.3. Empirical review and Section 2.4. Conclusions about the literature review and knowledge gaps are offered at the end.

2.2. Theoretical framework

Before discussing the practice of audit services, it is essential to understand the need of and the demand for audit services. 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 (Mock, 2014). In the audit process, there are two parties; auditee and auditor.

A conflict of interest arises between the owners or shareholders of the company and the management of the company, whose owners pay a fee for the management services they provide. At the core of the agency problem is the separation of management and finance, or ownership and control in more common terminology (Shleifer). This forces us to look for a way to solve the

problem of the institution in our context, which is the lack of a quality auditing service. Audit quality is measured by whether or not the published audit opinion shows that the annual financial statements of the audited company provide correct information about the company's financial position and results in all material respects (DeZoort, 2012).

Former researchers in the field have reached different points of view in determining the factors affecting audit quality.(Al-khaddash. H, 2013) identified six theoretical concepts for measuring audit quality: audit firm reputation, audit fees, industry specialization, audit firm size, auditor compensation, and auditor independence (Sawan, 2013)link audit firm size and audit quality and argue that large audit firms have more resources to devote to the recruitment and training process, which gives them the human ability to detect and correct accounting errors. In addition, (Angelo, 1981)relates audit quality to audit firm size. However, contrary to this view, (Arnett and Danos1979) cited by(Nwanyanwu, 2017)stated the following about audit firm size:

When discussing the determinants of audit quality, for example, from the perspective of audit firm size, regardless of the size of the audit firm, if the company has qualified and independent auditors, it makes sense that the audit firm would provide high quality audit service. However, it is expected and natural that the audit community will grow as a result, thanks to a quality audit service that improves the reputation of the company. This leads us to the conclusion that increase in size is the result of quality audit activity, not the reason for quality audit.

If the researcher learns that the financial statements audited by the auditors working in large auditing firms reflect the financial condition of the audited company better than the annual accounting statements audited by the auditors of smaller auditing firms, is it reasonable to conclude that the size of the audit firm? is a determining factor according to the quality of the audit, or is it better to make further diagnoses with the question "why large auditors of audit firms get a better result"? If the researcher is able to extend the research to this stage, important content elements will now emerge.

For example, in this scenario, it could be that qualified auditors were fed up with large audit firms where they could be paid for their ability to provide better service and detect technical errors than employee auditors. in small audit firms, whose ability to detect technical errors is

weaker. If so, in principle it is the technical ability that matters, not the size of the audit firm. If such a qualified auditor works for a small audit firm, which may prevent the auditor from providing a high-quality audit report? However, a particular small audit firm has the ability to recruit a small number of qualified auditors by paying them a reasonable incentive than a large number of junior auditors who plan to profit from low pay and generally poor quality service. In such a situation, it is more obvious that the case makes us express rather in this way so that "qualified auditors of large auditing firms are likely to be bored receive appropriate incentives for their high-quality services" than "large audit firms provide high-quality audit services than small audit firms" because small audit firms can also provide high-quality audit services if they employ qualified auditors and there is a possibility that large audits. Audit firms can provide low-quality audit services if they employ unqualified auditors. Small audit firms can hire qualified auditors by limiting the number of auditors to a level where they can pay them a higher salary. For example, if a certain large audit firm needs to hire 10 chartered accountants, another small audit firm may hire 4 chartered accountants with a similar salary. This means that if the auditors are similar, it is obvious that the audit services they provide are not different. Therefore, the hypothesis of this study is that audit quality has a positive relationship with auditor competence

Another reason why former researchers consider audit firm size as a determinant of audit quality stems from their belief that large audit firms have more resources to train auditors. As this study has already tried to explain, the quality to focus on in this case is the competence of auditors, not the availability of resources to train auditors. This is because even small audit firms can train auditors, and the auditor himself can improve his qualifications by joining the remote education. In addition, expertise can also exist through experience.

"If we assume that the quality of the audit is the same regardless of the size of the company performing it, the banker would have the same information to rely on decision; In this way, the size of the company should not necessarily be taken into account" cited by (Sawan, 2013). All these evidences support the opinion of this study that measuring audit quality provides better foundation for this concept (De Angelo's 2016) definition of audit quality soon assumed auditor independence and auditor competence.

The size of the auditor community can be formed both by the merger of firms and by merger or acquisition. And the increase in size due to these events cannot be an indication of the presence of competent and ethically independent auditors in these companies. Therefore, firm size is not expected to be a measure of audit quality. One thing to note is that the audit firm size example is presented here for compare and contrast purposes only and is intended to represent other mechanical characteristics that are expected to influence audit quality. In this study, the competence of the audit firm and the independence of the audit firm are assumed as a measure of audit quality.

2.2.1. Audit quality

The term "audit quality" is often used in stakeholder discussions, communications between regulators, standard setters, audit firms and others, and in research and policy development. Audit quality is a complex topic and there is no generally accepted definition or analysis of it (IAASB, 2014).

Hardiningsih et al. (2019) presented the following thoughts on audit quality: There are two schools of thought when defining audit quality: De Angelo's definition of audit quality and audit quality is measured by the level of compliance with standards. The auditor must be instructed in the performance of the task according to professional standards and rules of professional ethics. Accountants must always uphold the value of ethics and moral rules

Of all the different views on audit quality,(De Angelo, 1981) definition is the most frequently mentioned. Audit quality is the joint probability that the auditor detects and reports a breach in the client's accounting system. The likelihood that an auditor will report a perceived violation is actually in the definition of auditor independence (Watts, 2009).

Another approach to defining audit quality is a more normative way of thinking (Krista Fiolleau, 2013) stated that audit theory is a guide to conducting a normative audit. To conduct a high-quality audit, the auditor must follow generally accepted standards and regulations. Audit quality is measured using auditing standards and generally accepted regulations.

An audit is an independent, objective inspection and control activity aimed at creating value and improving internal control and organizational performance. It helps the organization to achieve its goals by invoking an effective and well-organized approach to evaluating and improving the effectiveness of risk management, control and management processes (International Audit and Assurance Standards Board, 2009).

2.2.2. The role and responsibility of external auditors in audit perception

The auditor is responsible for evaluating, checking, and reporting. Illegal acts and errors are among the most controversial issues in auditing and are frequently discussed by auditors, politicians, media, regulators, and the public (Mansoury, 2009).

The external auditor plays an important role in providing stakeholders and other users of financial statements with sufficient assurance about the quality of the financial information provided. As an independent, objective body, shareholders, creditors, and other interested parties rely on the auditor's report to decide whether the information should be relied on in making decisions. Competence and independence are the most important qualities that many stakeholders expect from an external auditor. National licensing requirements concern the technical qualifications of the foreign inspector. The state of freedom is more difficult to define. From the beginning, the role of auditors was not well defined ((Alleyne, 2005). (Porter, 1996) examines the historical development of the auditor's responsibility for fraud detection and reporting over the centuries and shows that auditing practices and the evaluation of auditing practices have passed through several stages. (PM Bynton, 2004) argue that auditors should be more active in looking for fraud during the audit process.

Jensen and (Meckling, 2010) also show that similar considerations apply to a debt or bond-financed firm. In this case, the owner-managers borrow money to operate the business. Here also the motivations of the managers differ from those of the financiers of the organization. Once managers have collected money from debt holders, they can use that money to invest in risky activities. Debt holders recognize the incentives of managers and shareholders to engage in risky activities, possibly at their expense, and therefore demand a higher interest rate or risk premium

for the funds they provide to the firm. However, managers and shareholders can lower the insurance premium by entering into insurance debt covenants that limit the risk of debt holders. An independent auditor can help managers and shareholders demonstrate to debt holders that such risk mitigation principles are being followed.

Similar questions concern the role of debt covenants and audit control in solving the problem of underinvestment(Myers, 2003) analysis indicates that shareholders of an indebted firm may have an incentive to reject investment projects with positive value if returns accrue to debt holders. (Smith Jr, 2015) describe the various types of covenants used to protect bonds against the incentives of managers and shareholders to act against their own interests. An audit helps to verify the accounting requirements of such contracts and to ensure that the contracts are fulfilled. If the investments are profitable, the managers can return the promised amount to the debt holders and keep the rest. If the investments perform poorly, they can simply default on the debt. In this case, the shareholders are on the side of the managers because they too can benefit from risky activities after the debt is issued. Based on the above research, several factors may influence audit fraud and abuse. In this research, the researcher has to study the effect of control checks on fraud detection

The task of the auditors is to ensure that the manager's report complies with the terms of the contract. Checking financial information by auditors gives the report more authority and reduces information risks, which can benefit both the manager and the owner. Although auditing is only one additional monitoring method, the prevalence of auditing in this context suggests that auditing is a cost-effective monitoring tool ((Myers, 2003).

2.2.2.1. Professional Responsibilities

United States Government Accounting Office (United States Government Accounting Office), cited in (Muluneh 2007. GAO 2007) asserted via the Internet that the auditee, not the auditor, is responsible for the preparation of financial statements. Therefore, officials of a regulated entity responsible for the use of public and private resources, as well as auditors of government programs or entities, fulfill key duties and responsibilities to ensure the effective, economic,

efficient and legal use of public funds. Audit organizations also have an important responsibility to ensure that auditors can fulfill their responsibilities. These unique responsibilities include implementing good corporate governance practices and providing professional audits and certifications (US GAO). As explained by the United States Government Accountability Office, the duties of auditors are:

In the performance of their duties, auditors must respect the values of serving the public interest and adhere to the highest standards of honesty, objectivity and independence. The term "public interest" refers to the general welfare of the individuals and organizations served by auditors. The auditor's responsibilities are based on these principles. Auditors must conduct themselves in a manner that serves professionalism, public trust and the public interest. Taking one's duty to the public is a hallmark of a calling. This role is indispensable in conducting audits in public administration. GAAS contains the idea of responsibility, which is essential to promote the common good (Muluneh 2007. GAO 2007).

Auditors must be professional, objective, factual, impartial and ideological in their dealings with auditees and users of auditor's reports. Auditors must be honest and fair in their work with the audited entity and the users of the auditors' work, observing the confidentiality laws, regulations or practices of the audited entity. Auditors must be careful about the use of information obtained in the performance of their duties. They must not use such information for personal gain or in any other way that would harm the legal and ethical goals of the audited community (GAO 2007).

Auditors must be objective and free from conflicts of interest in the performance of their duties. Auditors are also responsible for providing factually and ostensibly independent auditing and attestation services. Objectivity is a state of mind that requires auditors to be impartial, intellectually honest and free from conflicts of interest. Independence excludes relationships that may actually or apparently impair the objectivity of the auditors in performing an audit or certification engagement. Maintaining objectivity and independence requires continuous evaluation of relationships with audited entities in relation to auditors' public responsibilities.

Auditors must disclose all relevant or material information that helps management and other users of the reports understand their responsibilities under GAAS and the extent of attestation required by law and regulation of which they are aware in their reports on engagement results because the auditors' failure to make .So could mislead competent users. , misrepresent findings or conceal inappropriate or illegal activity (GAO 2007).

Auditors must provide engagement planning, performance, and reporting information to parties during the planning phase of an audit or certification engagement(U.S.GAO, 2007).

(Meigs, 2015) investigated in their study that GAAS are authoritative rules for measuring performance quality. Also according to(Arens, 2012), the existence of GAAS is evidence that auditors are very interested in maintaining a consistently high quality of audit work performed by all independent auditors. If each auditor has sufficient technical training and performs audits skillfully, carefully, and professionally, the prestige of the profession increases and the public pays more and more attention to the statements of auditors attached to the annual financial statements (Arens and Loebbecke).

Auditors should report to users of the audit report to what extent they believe it affects a "true and fair view" or "fair presentation" (lynch 2004). Therefore, it is reasonable to conclude from the discussion of the researchers above that unit management is responsible for the efficient, economical, and productive use of the unit resources. In addition, it is the responsibility of management to prepare financial statements in a manner that is easily auditable. On the other hand, auditors have the duty to form an independent opinion based on the audit and to communicate their conclusions to the users of the audited financial statements. Accordingly, auditors must be guided by standards or principles formulated by the professional and/or regulatory body of which they are members or under which they are established.

2.2.2.2. Legal Responsibilities

Statutory responsibilities of auditors and corporate or national legislation include a general duty to report to users whether financial statements give a true and fair view or fairly describe the

auditor's financial position and results of operations. Specific tasks, such as considering whether the information in the annual report is consistent with the financial statements and whether the company has kept proper records, were seen as limited by legal requirements (Loebecke, 2008).

Similarly, the Auditing Standards of the Government of Ethiopia state that the Statement of Auditing Standards describes the basic principles that guide the auditor's professional responsibilities and must be followed when conducting an audit. It provides a framework within which professional judgment must be exercised and sets minimum standards to be followed for individual audits (EGAS: Ethiopian Government Auditing Standards (EGAS, 2004).

As there is currently no well-organized and authorized professional accounting and auditing body in Ethiopia, no formal professional standards have been issued. The preparation of detailed ethical principles and rules is mainly the task of professional associations, and all members of the associations are obliged to accept, implement and monitor these requirements. As there is no organized strong national professional association in Ethiopia, there is no comprehensive set of ethical standards for the conduct of professional accountants. Statutory auditors must adhere to ethical rules established by the professional associations of which they are members (OFAG, 2004).

2.2.3. Audit plan

Naturally, it is reasonable to assume that planning occurs towards the start of an audit engagement. However, according to (ISA 300), planning should not be seen as a discrete and separate part of the overall audit. Planning often begins shortly after, or in connection with, the completion of the previous audit, for example, with a review of issues that were discussed with management, such as control deficiencies or unadjusted errors. Such matters are relevant to the next year's audit and need to be considered when planning. Similarly, the audit plan may be revised as the audit progresses, and should not be viewed as being fixed in place once the main planning phase has ended. For example, a significant event may take place as the audit is in progress, meaning that the audit plan needs to be changed.

The nature and extent of planning activities depends on the size and complexity of the audit client, previous experience of the audit firm with the client, and any changes in circumstance that may occur during the audit.

2.2.4. Audit procedure

Audit procedures are the techniques, processes, and methods that auditors use to obtain reliable audit evidence, which enables them to gain a sound judgment about an organization's financial status. Audit procedures are conducted to help determine whether or not a company's financial statement is credible and factual. The regular implementation of these procedures helps establish a business's financial reputation and strengthen its trustworthiness in the eyes of its customers, the market, and potential investors by making, **Inquiry, Confirmation, Observation and Inspection of documents** (ISA 300)

2.2.4.1. Inquiry

One of the simplest control procedures is a question. In this procedure, auditors collect oral evidence through formal or informal interviews with people in the organization. Although this type of evidence is important, it is not strong enough to stand alone and requires other documents or evidence to be considered valid.

2.2.4.2. Confirmation

Like an inquiry, an audit asks for an explanation of the organization's transactions. However, the main difference is that auditors confirm them directly by communicating with a third party or other external sources with which the organization has relationships.

2.2.4.3. Observation

With this type of audit process, auditors typically seek to ensure that the organization is implementing existing business procedures or initiatives. Such a procedure gives auditors an understanding of how internal processes work and whether they can affect the functioning of the entire organization.

2.2.4.4. Inspection of documents

Document review is the process of collecting and investigating transactions using recorded information. This can be done in two ways: assurance and monitoring. For warrants, inspectors manually check coupon details to verify transaction information. At the same time, tracing is the process of confirming events by tracing their relationships to the original document.

2.2.4.5. Inspection of physical or tangible assets

A tangible asset audit is a procedure in which auditors physically inspect a company's assets, including real estate such as land, buildings, vehicles, equipment, or inventory. This process not only confirms the existence of the property but also helps determine if there were any defects or damages affecting the value. Auditors can make a list of all the fixed assets of the company or use it to do an asset registration audit.

2.2.5. Elements of External audit

The most important audits carried out by external auditors are the audit of annual accounts, the audit of operations, and the audit of compliance with requirements. An audit (or audit) examines financial statements, documents, and related activities to ensure compliance with generally accepted accounting principles (<https://www.careersinaudit.com>).

2.2.5.1. Financial statement audit

An audit of financial statements is the examination by an independent auditor of the financial statements and related information of an (economic) entity. The result of this audit is the auditor's conclusion, which indicates the correctness of the financial statements and related information. The audit report must be attached to the annual accounts if it is made available to the intended recipients.

The purpose of auditing annual accounting reports is to increase the reliability of the reported financial position and business results. The Securities and Exchange Commission requires all public entities to file audited annual reports with it. Lenders also usually require an audit of the

financial statements of each entity they lend money to. Suppliers may also require audited financial statements before they are willing to grant trade credit (although usually only if the amount of credit requested is significant). Audits became increasingly frequent as the two main accounting frameworks, GAAP and International Accounting Standards, grew in complexity and large companies consistently disclosed fraudulent reporting (<https://www.careersinaudit.com>).

2.2.5.2. Operational audit

Performance monitoring examines how an organization does business and aims to identify improvements that increase its effectiveness and efficiency. This type of audit is fundamentally different from a normal audit, the purpose of which is to verify the adequacy of control and assess the correctness of the presentation of the financial statements. Operational audits are usually conducted by internal audit staff, but experts may be hired to conduct audits in these areas. The main users of the audit recommendations are the management and especially the managers of the investigated areas(<https://www.careersinaudit.com>).

2.2.5.3. Compliance audit

A compliance audit is a process of independently assessing an organization to ensure compliance with external rules, regulations, and laws, as well as company rules, policies, and procedures. A compliance audit examines in depth how an organization adheres to regulatory guidelines. It also addresses the effectiveness of internal controls to determine how you monitor and measure your performance against these external and/or internal requirements. Compliance control must be independent and not necessarily carried out by someone outside your organization but by someone independent of the assessment work(<https://www.careersinaudit.com>).

2.2.5.4. Investigation audit

An investigation is a detailed examination of the accounts and inquiries about the state of the business or for a specific purpose. It involves the process of analysis, collection, and presentation of facts in a way that allows the parties to know the relevant facts related to the matter under investigation. Research spans more than one fiscal year and the program depends on the type of research. Example: An investigation is conducted to reduce suspicions of fraud and theft, to

identify the causes of ongoing losses and low productivity, and to assess the company's creditworthiness (<https://www.careersinaudit.com>).

2.2.6. Factors affecting External Audit practice

2.2.6.1. Auditor Competence

Competence can be developed through a variety of methods, including professional learning and continuing professional development, including training, work experience, and mentoring by more experienced staff (IAASB, 2018). (Mautz, 2015) defined competence better than professional competence and made the following observation. Professional competence has two aspects: technical competence and social competence.

Technical competence includes (1) knowledge of accounting principles, (2) understanding of accounting theory, including auditing standards, auditing techniques and procedures, and their application to specific situations, and (3) understanding of internal affairs. supervision and (4) procedures for completing audit program stages, preparing relevant work papers, developing audit programs, and supervising the work of subordinates..

In addition, they showed that a performance appraisal manager or a performance appraisal team leader can become a performance auditor if he or she meets certain specific requirements. A performance inspector must be well-trained in the social sciences and scientific research/evaluation methods. According to(Hardiningsih, 2019) cited in(Zu'amah, 2009), an auditor must have the professional qualifications necessary to obtain a quality audit opinion, obtained through formal education, professional certification, training, participation in seminars and symposiums and other workshops.

An accountant must have global knowledge to face the realization of a free competitive market. With an adequate understanding of the audit profile, audit procedures can be performed better and can lead to higher-quality audit reports(Hardiningsih, 2019). The auditor must be qualified; An unqualified auditor usually relies on the opinions of others when performing audit tasks, as they have very limited knowledge and experience (Kertarajasa, 2019). According to (Kertarajasa,

2019)cited in (Knoers., 2008)), experience is a learning process, and the increase in possible development behavior from both formal and informal learning can also be interpreted as a process that leads a person to a higher level behavior

2.2.6.2. Audit independence

The importance of auditor independence was underpinned after the corporate scandals. From the bankruptcy filing of Enron on December 2, 2001 for 12 months, an unprecedented string of large bankruptcies and corporate scandals emerged. Six of the ten largest corporate bankruptcies occurred in this period(Mansouri A. P., 2009). Independence is the main justification and the hallmark of existence of the auditing profession. It is recognized as a key attribute to be 14 maintained by the auditors in all circumstances(Albeksh, 2017). The International Ethics Standards Board for Accountants (IESBA) is a global independent standard-setting board including international independence standards in which its structure, process and operation is supported by the (International Ethics Standard Board of Accountants (IESBA, 2018). IESBA in its final pronouncement of (2018) issued about independence in section 120.12 part A1 as follows: Professional accountants in public practice are required by internal independence standards to be independent when performing audits, reviews, or other assurance engagements. Independence is linked to the fundamental principles of objectivity and integrity. It comprises Independence in mind- the state of mind that permits the expression of conclusion without being affected by influences that comprise professional judgment, thereby allowing an individual to act with integrity, and exercise objectivity and professional skepticism. Independence in appearance- the avoidance of facts and circumstances those are so significant that a reasonable and informed third party would be likely to conclude that a firm's or an audit or assurance team member's integrity, objectivity or professional skepticism has been compromised. As mentioned in section 120.13 part A1 of the pronouncement, professional skepticism encompasses integrity and objectivity. In other words, when an auditor exercises integrity and objectivity, he/she supports professional skepticism. Not only must an auditor be independent, however, but he or she must be perceived as independent as well. The external auditor's professional opinion would be of little value to statement users if they believe the auditor is not wholly independent of management(Mansouri, 2009).

Independence is having a position to take an unbiased viewpoint in the performance of audit tests, analysis of results, and attestation in the audit report(Hayes, 2005). Auditor independence refers to the auditor's ability to maintain an objective and impartial mental attitude throughout. The audit(Soltani, 2007). The common belief that independence is able to solve all the problems faced external auditors, while it is a part of the justice system in the audit profession. When the independence of the external auditor was discussed, researchers recommended that there is a necessity of vocational rehabilitation of the external Auditor(Albeksh H. , 2016).

2.2.6.3. Audit fee

Audit fee refers to all fees paid by companies to external auditors for audit services and non-audit services, e.g. management advisors and consultants. Audit fees primarily consist of the salary and benefits of office and field personnel, travel expenses, and other expenses necessary to conduct the audit and related support activities. Rewards correspond to employees' estimated working time costs and actual travel costs for their activities, plus a profit margin. In their discussion(WR Kinney, 2002)argued that the threat to auditor independence can be as high as the audit fee is high.

Several studies have empirically investigated the relationship between audit quality and audit fees;(Y Wang, 2014) assume that audit services are qualitatively differentiated and that quality differences are reflected in fees in competitive markets. However, because audit fees have multiple determinants, they are a noisy indicator of quality. 31 previous studies examining whether audit committee presence, audit committee characteristics, and internal audit use are associated with higher audit fees in the Australian setting concluded that higher audit fees mean higher audit quality (Y Wang, 2014). Several authors have argued that managers and entrepreneurs are willing to pay higher audit fees to obtain higher-quality audits.

2.2.6.4. Audit experience

According to(T Yang, 2012), an experienced auditor can identify accounting problems, classify those problems or issues as significant, refine the focus of the audit, or redirect the audit when new information is taken into account. The importance of experience can be demonstrated when

an experienced auditor can develop a more effective investigation plan by identifying several different types of fraud based on personal audit experience. The more experienced inspectors are involved, the wider the fraud database (Bologna, 2013). (Cohen m, 2005) stated that a person with more experience in a particular field has more ability to develop specific questions related to his experience and his technical audit ability increases with more experience in performing audit tasks. More experience improves the quality of inspections, especially inspection ratings.

2.2.6.5. Certification

Certification is the percentage of external auditors who hold CPA certification in the external audit function. The purpose of certification is to create a standardized test instrument that accurately assesses the skills required to pass a valid accounting exam (Rezaee, 2010). The professional certificate of the formal training process states the minimum qualification of an individual inspector (Mui, 2009). Any person who meets the qualifications in the field of accounting and has at least eight years of experience in the relevant field can apply for KHT registration from the government according to the procedure prescribed by the board or according to accounting. Audit Board of Ethiopia Proclamation No. 332/2014

2.2.6.6. Professional Ethics

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

2.2.6.6.1. Integrity

In all professional and corporate relationships, a professional accountant should be straightforward and honest.

2.2.6.2. Professional Competence

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

2.2.6.3. Confidentiality

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

2.2.6.4. Professional Behaviour

A professional accountant should comply with relevant laws and regulations and should avoid any action that discredits the profession. As stated above, IESBA parts B and C of the code of ethics of professional accountants deal with the conceptual framework of the code of ethics of professionals. The next section will deal with how professional accountants can identify the treat and safeguards that can be faced during their audit engagement. (IESBA, 2013)

2.2.6.5. Threats to the basic principles of professional ethics and independence

Objectives are the wide range of conditions, situations, and relationships that exist between the auditor and clients, which can affect the fundamental principles of the ethical rules of the auditor. (IESBA, 2013) If the auditor identifies threats to compliance with the fundamental principles, the auditor should evaluate these threats and determine that they are not at an acceptable level and that appropriate safeguards are in place and can be implemented to eliminate or reduce the threats to an acceptable level. Level IESBA stated that any type of medical source can fall into one of the following categories

2.2.6.5.1. Self-Interest Threat

If the auditor is financially dependent on the auditor's client or if the auditor or a person close to him has a financial or other interest in the auditor's client. Also, the auditor depends on the company's management for re-election as an auditor(Ethiopia, 2014)

2.2.6.5.2. Advocacy Threat

The threat states that a professional accountant will promote a clients or employers position to the point that the professional accountant's objectivity is compromised.

2.2.6.5.3. Intimidation Threat

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

2.2.6.5.4. Safeguards for Threat of Professional Ethics and Independence

IESBA defines safeguards as actions or other measures that can eliminate hazards or reduce them to an acceptable level. Protection against potential threats can be classified into professional, legislative, or regulatory safeguards, which include education, training, and experience requirements for entry into the profession, requirements for continuous professional development, company rules, professional standards, and professional or regulatory supervision and disciplinary procedures. (IESBA, 2013) IESBA identifies a possible commitment that may require the implementation of special safeguards in the work environment, including an auditor who is not involved in the insurance service or, if necessary, a consultant who has not worked for an insurance company. For an assurance engagement, the assurance engagement team reviews the assurance work performed or consults, as appropriate, with an independent third party, such as a committee of independent directors, a professional regulatory body, or another professional auditor, and discusses ethical issues. problems with the parties that control the client

2.2.7. Governmental oversight

Like all questions asked, audit is important and this is especially true for audit as it is very important for the government as it affects revenue. Governments usually appoint a technocratic body that ignores industry and issues laws and regulations to guide practice (Mock T. J., 2014), in the case of Ethiopia this would be AABE, but the organization is not yet fully operational. Another reason why government oversight is important is that some auditors tend to abuse their powers and responsibilities, and active oversight is necessary to combat this problem, as it can cost the economy millions, and in extreme cases, billions.

2.2.8. Training and knowledge

Because auditing practice is constantly changing, periodic training is necessary to keep auditors abreast of current practices. In general, auditors, especially in less developed countries like Ethiopia, tend to be unaffected by existing regulations. This results in poor performance and sometimes has the same effect as malicious intent.(Al-Khaddash, 2013). Government agencies and audit firms offer training at universities in most countries to combat this. Again, AABE is responsible for implementing these activities in Ethiopia and providing these services.

2.2.9. Firm structure

As firms sign contracts with clients and conduct audits, much of the practical implementation falls on their shoulders(Suwaidan, 2010). A company with a strict control system can have a positive practice even if the above two factors are absent; while the counter company will definitely have a negative impact on the industry. Most firms, including those operating in Ethiopia, generally do not allow audit reports to be prepared without a partner's signature, allowing the partner to verify that everything is in order before deploying the report. Some larger companies have entire departments that monitor the accuracy of audit reports. According to ACCA Audit and Assurance, the audit committee should consist of three non-executive members and be independent of the company's managers, and internal auditors should report to the audit committee, which helps prevent and limit fraud.

2.2.10. Market structure

On the other hand, while the market structure may not affect audit practices, it actually has a significant effect if the audit market is a monopoly, oligopoly, monopsony, or other market structure that is likely to adversely affect practices where firms become incompetent or do so, the customer wants in both cases; the practice has a negative effect. But in a competitive market, the battle for market share leads to more professional and compliant companies, even if regulation is not as well enforced.

2.2.11. The constraints that exist on auditors attempt to exercise their responsibility

According to (CS Akhtar, 2015), one of the foremost but uncommon problem for auditor would be an attempt of sophisticated financial statement from the client's side, which is that a client purposefully wants to hide certain material misstatements so that the auditor could not detect it. The most common reason for the audit failure would be that an audit itself was not effective and efficient, or that the audit was not planned in a proper way. Due to the lack of proper planning, it is difficult for an auditor to assess the main and significant risks are present in the client firm, so in this way the auditor focuses on wrong aspects rather than the ones which need to be scrutinized. Weak knowledge of the auditor regarding the client firm is another factor, which could lead to an audit failure. This would be due to the fact that complete information or scenarios were not presented by the client to the auditor in a clear and adequate, and the opinion presented by the auditor has been on the availability of provided information.

Aamir(2010) also justifies, an audit failure is not due to the process of audit involved in the audit engagement rather it is due to the unavailability of information. The consequences of an audit failure could be that an auditor is being sued due to the issuance of wrong audit opinion concerning the financial reports, or maybe you do not get paid for the audit services (with a smile). But the authorities do look into the case and decide that who was guilty party in the audit failure and based on that the guilty party is subject to the charges in the law.

Further, According Aamir (2011) one of the reasons for audit failure is the time allocated for the audit engagement. For instance sometimes there are only 10-hours allocated out of which you have to both detect the problem and keep communication and coordination with colleagues. Due to budgetary concerns the time limit could not be extended and therefore it turns out to be difficult to discover problems and detect material errors within such short period of time. Other than this an audit failure could be due to improper audit planning, and due to mistakes in the planning process you can miss important factors in the audit of the client firm. And sometimes a risk is detected in the audit but then it is difficult to eliminate the risk because the time allocated to you do not allow you to do so. The consequence for the audit firm is that it would need to use

the insurance in order to cover its mistakes within the audit. Other than this there is a governmental organization, which investigates the audit engagements of auditors and in reference to illegal or bad audit the license of the auditor could be cancelled as well. Aamir also added that apart from this the auditor loses reputation as well, and the clients feel hesitant to work with such auditors, and in general would have its negative impacts on the brand name of the audit firm as well.

External audit is an external governance mechanism that reviews and evaluates client internal Controls and audits their financial statements in order to prevent material misstatements (J Markby, 2022). Markby further noted that Auditors of higher quality are less willing to accept doubtful accounting methods and are more likely to report errors and irregularities revealed during the audit work. Thus, the external auditor is considered to have an impact on the efficacy of the firm's monitoring function, and hence the incidence of fraud detection. Stockholders rely upon the external auditor to provide some assurance that the financial statements of a firm are not misleading. It is crucial that the monitoring provided by this procedure is not impaired.

Therefore, in order for the external auditor to provide satisfactory oversight with regard to reducing the incidence of fraud and material mis-statement, two crucial factors affect the functionality of the external auditor, namely, independence and quality.

2.3. Empirical Review

The practice of external audit belongs to the students and practitioners of the department. To understand these claims, the researcher cited the following empirical evidence based on their relevance to this study.

(C Akpotu, 2013): In this paper, the author seeks to understand the possible relationship between unethical practices of foreign auditors and corporate failures in their home country, Nigeria. Assuming a connection between the above factors, the author found that concealing fraud, colluding with management, and witnessing false and unfair accounts lead to disastrous results, and these behaviors seem to have been reinforced in government agencies. The author believes that the lack of regulation has led to this harmful practice.

(Gilo, 2010): In a study on external audit practice in Ethiopia, the author of the writer tries to focus on independent auditors in Ethiopia and their problems. He outlines more than a dozen problems facing contemporary independent auditors operating in Ethiopia, starting with the legal status of such professionals, some of which include the country's lack of guidelines for auditing NGOs. the commercial code used in the country dates back to the 1960s and the fact that the Ethiopian Professional Association of Accountants and Auditors (EPAAA) is not legal in the country and is not part of an international group. Apart from the aforementioned legal problems, the important fact is that the country does not have its own auditor certification process and According to the author, the fact that the number of accountants and auditors is low relative to the economy has seriously hindered the growth of the profession.

(Gilo., 2009): here the author tries to explain and analyze how the different political and socio-economic principles of the country influenced the accounting profession and how various controls affect audit practice and government revenue. The author found that although there were no institutions in the governments covered that significantly influenced the profession; accounting practices seem to have evolved according to the ideology of the time. The author also points out that since there is no legislation supporting the law; attempts to create an organization that could monopolize the practice have so far failed.

(Alim, 2007): Using empirical evidence, the author tries to interpret the importance of independence in auditing and how the difference between application and observation influenced revision during the study period. It describes common issues that an auditor may encounter in their work that may affect their independence. These include self-interest, self-confidence, lobbying, familiarity and intimidation. The work reveals that, as is generally agreed, independence is of utmost importance for any auditor, and bad human behavior damages the practice like a hole.

Professional Association of Accountants and Auditors (EPAAA) has no legal status and the regulation of the field is falling to the Office of the Federal Comptroller General (OFAG), but due to the many issues that the organization has to deal with, application quality assurance receives little or no attention and is non-existent punishments for abuses on paper were allowed

to spread quietly. The magazine concludes by recommending, among other things, the reform of the Commercial Code the establishment of national auditors and accounting boards and the establishment of professional and technical qualifications for local auditors.

(Alim M. T., 2014): The author of this article examines the relationship between internal auditors and the audit committee with external auditors and how effective communication between the two can be of immense benefit to the client and the auditors themselves. The author does this in the context of developing countries and provides useful insight into a less understood but still important corner of the field, and when explaining the relationship between internal and external auditors, the author explains the gaps in the field that are helpful because most of them are also experienced here, but again the analysis is presented by sector and focuses on both internal auditors and external auditors, which is not done in this article, focusing rather on external auditors and talked more about individualistic traits.

2.4. Summary and knowledge gaps

Although the mentioned empirical reviews try to show their findings according to their field of study, this necessarily means that the observation of their country necessarily concerns another country, because each nation has its own culture, economic background, political environment and other considerations. If we see the studies done in Ethiopia, some studies try to see the role and responsibility of the auditor from audit practice that does concern the auditing practice and ability of the auditors, while others only from an independent perspective. This research attempts to evaluate the role of the audit firm in audit activities from the practice of the auditor's professional ethics.

CHAPTER THREE

3. RESEARCH DESIGN AND METHODS

3.1. Introduction

This research is a descriptive paper, but it also uses many statistical elements to clearly highlight the study conclusions. The reason for choosing a descriptive approach is to identify and accurately collect information related to audit practice in Addis Ababa and to explore the practical obstacles of a conflict of interest between the owner and the principal. i.e. shareholders and principals, lack of training and knowledge and controls. The behaviour of external auditors from the private sector involved in the audit process assesses their opinions on how they perceive and apply the audit techniques presented..

3.2. Research Design

Research design is the arrangement of data collection and analysis conditions in a way that aims to combine research relevance and process economy. Research design is the conceptual framework within which research is conducted; it consists of a plan for data collection, measurement and analysis and an overview of what the researcher did from the writing of the hypothesis and its action to the final analysis of the data(Kothari C. R., 2019). Research design is ongoing, which implies different approaches expected to solve a research problem, delivery point with the question and time frame and budget. Descriptive research design method was used in this study because the purpose of the study is to evaluate the aspects of audit practice related to the behavior of private external audit firms based on the formulation of research questions.

3.3. Research Approach

According to (Garg, 2019), the researcher used quantitative and qualitative methods to assess the audit practice. In other words, combining both quantitative and qualitative methods is a more

practical approach to understanding the phenomenon under study. Quantitative data is information in numerical form, often obtained from questionnaires or structured interviews. Qualitative data is descriptive data obtained from observational or unstructured interviews (Taylor, 2017).

3.4. Population and Sampling

According to (Zikmund, 2003), the definition of the population is a general set of interests that are known by a researcher. In this study, the participants are external audit firms.

The most important sources of information were the questionnaire distributed to external auditors authorized by the auditing association. In addition the survey, interviewed the Ethiopian Revenue and Customs Authority and Auditing and Accounting Board of Ethiopia, that are the study primary data.

Based on the above information, there are sections related to the subject. The researcher contacted the staff assigned to this study population area. Therefore, our population survey is based on ethical questions taken from 122 auditors.

3.5. Sample size

In Ethiopia, the Accounting and Auditing Board(AABE, 2017)the total number of authorized private audit firms are 176. Regarding the sample size, the study Yamane (1967) quoted by Yilma Mulukun reported using a simple formula to determine the minimum sample size required at the 95% confidence level, e. 5 percentage point error

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

Where:

n = the desired sample size

N = the total No. of study population size

1= designates the probability of the event occurring

e= the level of precision (Sampling error that can be tolerated which is 5%).

$$n = \frac{176}{1 + 176(.05)^2} = 122.22$$

n~122

Based on the above formula 122 auditors were selected for the study.

According to (Cohen et al., 2005), the study makes it difficult to cover all the companies under study. Therefore, the researcher used random sampling to select the Audit firm. In random sampling, each individual in the population has an equal chance of being selected, which is important for the validity of the study (Creswell, 2018). Because the purpose of the research is to draw theoretical conclusions from the research results, which are still applicable empirically in research in any other context, this random sampling is the most appropriate method.

3.6. Method of data collection

The study is conducted using a structured questionnaire for auditors. The data used in this study includes primary data. Primary data is the main source of this research by asking respondents as a tool. The questionnaire consisted of closed-ended questions are designed with a standard scale and multiple choice, some of the closed-ended questions are five-point Likert scales (Kotari 2004) providing respondents with a wide range of options, with an end point of '5' indicating strongly agree with the statement, and '1' indicating strongly disagree with the statement.

3.7. Methods of data analysis

Data analysis involves examining; classifying, tabulating, or otherwise combining the evidence to address the original research hypothesis (Yin, 1989, p. 105). The researcher analyzed the data collected through questionnaires and interviews along with qualitative and quantitative data. Therefore, the qualitative data interpretation analysis combines to search for the integration between the results.

(Catherine, 2002) to analyze the collected data because it is a user-friendly package that has been used by social scientists in recent years; (RY Liu, 2007), the researcher developed Statistical Package for Social Sciences (SPSS) version 20 software.

A Likert scale model (5-point scale) was used by the researcher to collect data through questions. After the data was entered into the SPSS software, Cronbach's Alpha analysis was performed to evaluate the reliability and consistency of the instrument.

The analyzed data were described and summarized using descriptive statistical methods, particularly mean, frequency, percentage and standard deviation. Then the results of the study are presented using different tables.

3.8. Measurement of Reliability and Validity

The study validated the measurements by using reliability and validity.

3.8.1. Reliability

One of the most common methods for testing the reliability and validity of data collected through questionnaires is the use of Cronbach's alpha coefficient. Lee Cronbach (1951) defines reliability as an attribute of an instrument used to measure consistency. Consistency indicates that an instrument has a constructed value that is used to measure it. A generally accepted rule of thumb for describing internal consistency using Cronbach's alpha is as follows.

Table 1:- Rule of Thumb of Cronbach's Alpha

Cronbach's Alpha	Description
$a > 0.9$	Excellent
$0.8 < a < 0.9$	Good
$0.7 < a < 0.8$	Acceptable
$0.6 < a < 0.7$	Questionable
$0.5 < a < 0.6$	Poor
$a < 0.5$	Unacceptable

Table 1 Cronbach's Alpha Result

Cronbach's Alpha	N of Items
.735	30

Source:- SPSS Results

3.8.2. Validity

Validity is a generic term that refers to "measurement validity" (Kothari, 2004). To be a valid instrument, the survey questions must measure a dimension or construct of interest, (Bolarinwa,

2015).Factor analysis is a statistical method used to assess construct validity. Moreover, the validity of the questionnaire was tested before the distribution of the responses a component analysis test was conducted during the analysis to determine the validity of each of the questions/statements used to arrive at the findings of the study.

3.9. Ethical Considerations

It requires gathering information from participants. At the time of distributing the questionnaire, the researcher informs the subjects about the purpose and benefits of the study and their full right to refuse or accept the participation. Respondents to the response will be kept confidential and their identities must not be revealed. Information obtained from respondents will be kept confidential. Respondent assessment is not required to mention their name in the questionnaire. In addition, the willingness of the participants in the data collection process was a prerequisite for the data. The information obtained from the participants was not used for any other purpose.

3.10. Data quality assurance

The researcher tried to find the accuracy and validity of the data during and after the collection process to achieve this, taking into account all necessary precautions by the investigator when preparing questionnaires and other procedures. Moreover, the researcher will follow the protocol and guidelines of St. Mary's University and data collection.

CHAPTER FOUR

4. DATA PRESENTATION AND ANALYSIS

4.1. Introduction

The previous chapter used appropriate methods to assess the audit practice of external audit firms. This chapter contains an analysis of the survey methodology and partial results of the interviews. The chapter is divided into four main parts point 4.2. General characteristics of the respondents, point 4.3. analysis of research-related data,

To analyze the raw data collected from sample private audit firms, the researcher used SPSS 20 version which is specialized statistics program that can provide sufficient tools for analyzing the collected data and excel application of the SPSS outputs. Therefore, the quantitative data from the questionnaires was analyzed using simple descriptive statistics (mean, frequency and percentage) and presented in the form of graph and table. This enabled the researcher to make the analysis and to see the impact audit performed by them of private audit firms in audit practicing.

4.2. General Characteristics of Respondents

This section focuses on the analysis and interpretation characteristics of the overall responses collected through interviews and questionnaires. The analysis of the data is done in relation to the basic research question and the purpose of the study. The section will be categorized as 4.2.1 Demographic characteristic of Respondents; 4.2.2 Survey result on audit firms.

Table.1:- Rate of return of distributed questionnaires

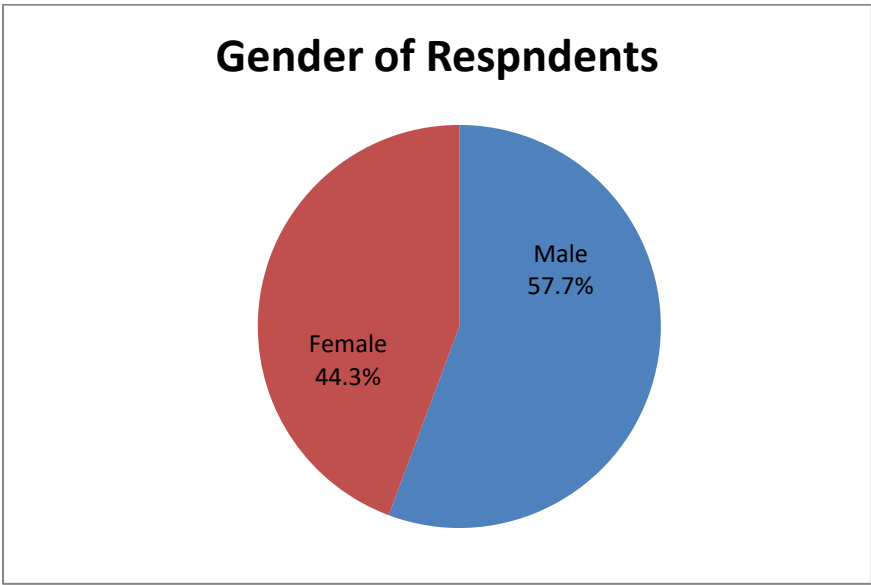
Description	Total	Percentage
Distributed	122	100
Returned	97	79.51
Not Returned	25	20.49

Source: Survey (2021)

Table 4.1: It can be seen from the above table that 122 questionnaires were distributed to the selected audit firms and 80% responded to the survey and the remaining 20% did not respond to the survey. Interviews were conducted with the Director General and Audit Manager, as well as the Audit Senior and the Ethiopian Revenue and Customs Administration. Therefore, the invoice is considered suitable for further analysis.

4.2.1. Demographic characteristic of Respondents

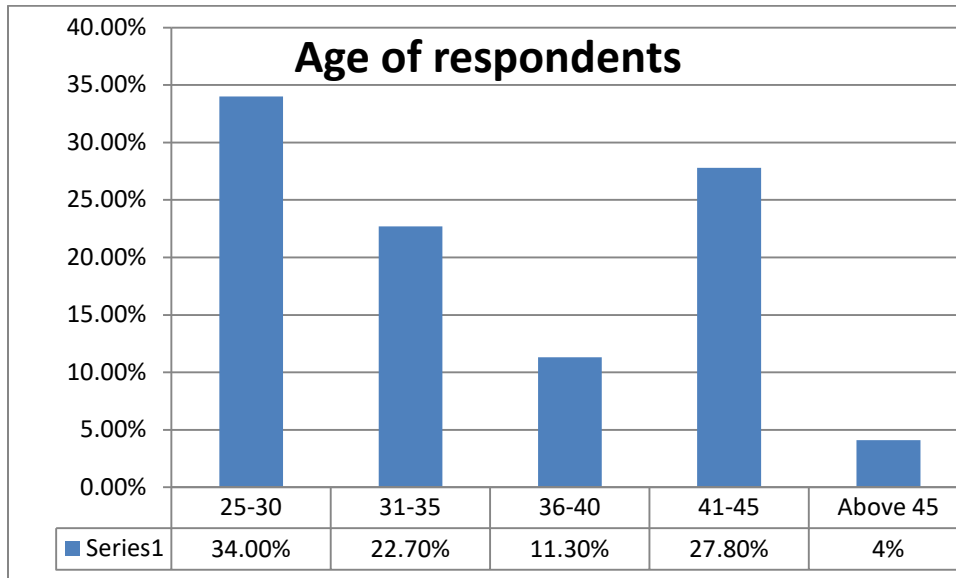
Figure 4.1:- Gender of the respondents



Source: Survey result

As shown in the above figure, the share of female respondents is 35.1% and male respondents are 64.9%. Although the ratio of respondents was varied, both gender categories participated in the survey. This allows the researcher to ensure that there was no bias in the survey related to the gender of the respondents.

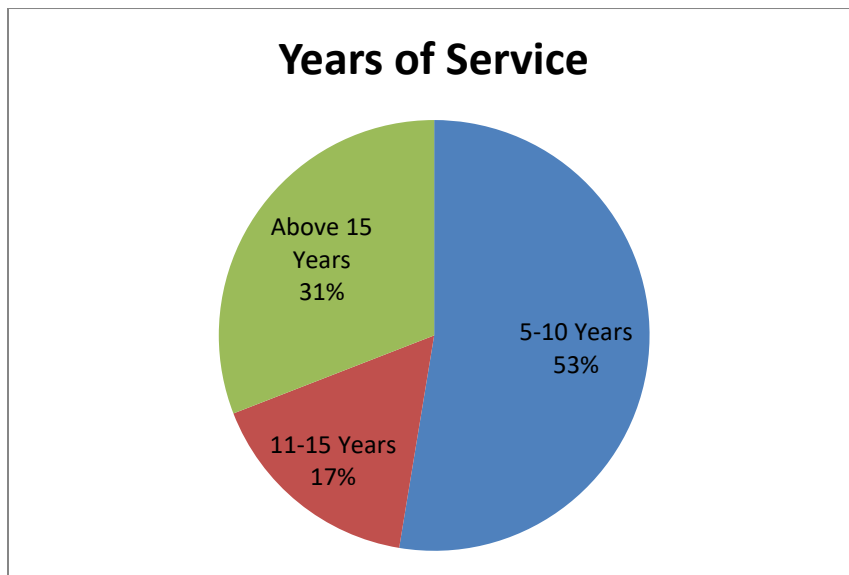
Figure 4.2: Age of the respondents



Source: Survey results

Figure 3 shows that there were a total of 122 auditors over 45 years old, which is 4%, and 41-45 years old 27.8%. Based on the results of the survey, the age groups 36-40 are 11.3%, and 31-35 and 25-30 years are 22.7% and 34% younger and more energetic. This means that younger people are doing productive work and more achieving the audit practice

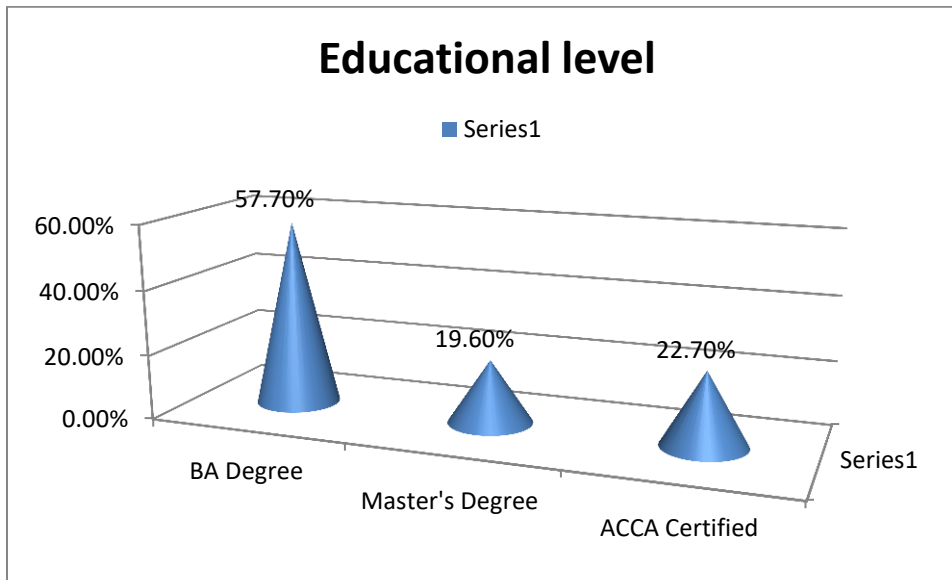
Figure 1.3: Years of Service the respondents



Source: Survey results

Regarding the seniority of the respondents, 31% of the respondents have more than 15 years of experience and their own auditing company and they are experienced and professional, and 16% and 53% of the respondents have 11-15 years and 5-10 years of auditing experience respectively in Audit Company, they are audit manager and audit senior This suggests that most respondents had a positive impact and well organized on audit practice.

Figure 4.4: Educational level of the respondents



Source: Survey results

The education level of auditors contributes to audit practice effectiveness. They increase the academic qualifications of accountants. The experience of the auditor shows that a good level of education has a positive effect in audit practicing. As in the figure above, 57% BA Degree, 19% Master's Degree and 23% ACCA certified the summary is at a higher educational level. This suggests that the respondents also have a sufficient level of education to understand the concept audit practicing.

After the General Information of the external audit firms were looking for the data analysis of the given Questioner of the respondent in audit firms' with regard with the external audit firms that are operation in Addis Ababa. By using random sampling Methods we took 97 respondents

4.3. Analysis of Data Pertaining to the Study

4.3.1. Audit service practice

Table 4.1:- Audit Servicequality

I. Audit service		Scales					Mean	STD	
		Fre	SA	A	N	DA			SDA
1	The audit fee received by the auditor's clients for the audit services provided by them does not have a significant impact on the quality.	Fre	0	0	0	30	66	4.66	.538
		%	0	0	0	30.3	66.7		
2	Audit fieldwork results may be summarized and an audit report issued with an engagement sufficient seniority.	Fre	0	0	17	30	50	4.65	.480
		%	0	0	17	30.3	50.5		
3	With the time interval is there a general meeting with the clients to express an opinion in accordance with the ACCA guidelines.	Fre	0	0	0	34	63	4.34	.762
		%	0	0	0	34.3	63.6		

Source: SPSS result

As shown in the above table the audit service, an audit fee does not have a significant impact on audit quality. The majority of the respondents says that disagreed 33% and 67% strongly disagreed, This indicates that audit fee does not significant impact with the quality external auditor's focus on quality and they must be quality service giver.

As for the Auditor, the results of the field work can be summarized and the audit report can be issued by a sufficient parent. Most of the respondents say that 17% Neutral, 30% disagree and 50% strongly disagree, which means that there is enough commitment to a formal and audit report in the field work.

As in the table above, we found that 30% disagree, and 67% strongly disagree form the respondents point of view as ACCA guidelines auditors must have general meeting With their client's

4.3.2. Professional ethics of auditors

Table 4.2. Professional Ethics

II. Professional ethics of auditor									
		SA	A	N	DA	SDA	Mean	STD	
4	Do you agree that every professional accountant should follow the basic principles of the professional code of conduct?	Fre		1	14	45	37	4.22	.725
		%		1.0	14.1	45.5	37.4		
5	Assume that Ethiopia private audit firms apply the ethical standards set forth by the International Ethical Standards Board for Accountants (IESBA).	Fre			4	44	49	4.46	.578
		%			4.0	44.4	49.5		
5.1	Objectivity (Are auditors free from bias?)	Fre			1	32	64	4.65	.501
		%			1.0	32.3	64.6		
5.2	Credibility (auditors are trustworthy)	Fre			12	45	40	4.29	.676
		%			12	45.5	40.4		
5.3	Professional competence and proper care	Fre			13	21	63	4.52	.723
		%			13.1	21.2	63.6		
5.4	Confidentiality	Fre			6	35	56	4.52	.614
		%			6.1	35.4	56.6		
5.5	Professional behavior	Fre			2	33	62	4.62	.529
		%			2.0	33.3	62.6		
6	An auditor has the ability to assess the level of ethical risk they face during the audit process.	Fre				43	54	4.56	.499
		%				43.4	54.5		

Source: SPSS result

Regarding the application of the ethical standards of the International Ethical Standards Board (IESBA) of impartiality, reliability, professional competence, confidentiality and professional conduct, the majority of respondents with a mean of 4.47 and a standard deviation of 0.62 should not apply the international ethical standard because they do not have the strict rules and regulations set by the Auditing Board (AAB).

Based on the survey result, the researcher assess professional ethics (objectivity, reliability, professional competence and appropriate treatment, confidentiality and professional conduct).

Therefore, the government and AABE impose penalty for renewing a professional license and provide on-going training.

4.3.3 Independence of auditors

Table 4.3. Independence of auditors

III. Independence of auditors									
			SA	A	N	DA	SDA	Mean	STD
7	Do you believe that the auditor engaged in Ethiopia is independent in thought and appearance?	Fre			3	26	68	4.67	.535
		%			3.0	26.3	68.7		
8	Auditors do not have a financial interest in the audit client	Fre			4	52	41	4.38	.567
		%			4.0	52.5	41.4		
9	Auditors disclose financial statements only to management and the audit committee				1	35	61	4.62	.509
					1.0	35.4	61.6		
10	Auditors do not have a business relationship with the client	Fre		1	3	28	65	4.62	.603
		%		1.0	3.0	28.3	65.7		

Source: SPSS result

On the above table this topic, independence of opinion and appearance, 69% strongly disagree, 26% disagree and 3% are neutral, which means that the auditor should be independent in both opinion and appearance.

Looking at another audit, auditors have no financial interest in the audit client, the majority of respondents said 41% strongly disagree, 52% disagree, and 4% are neutral, meaning that the auditor has no financial interest in the client.

The above table show that the auditors who disclose financial statements only to management and the audit committee, the majority of respondents say that 62% disagree, 35% disagree, and 1% are neutral, this means not only management and the audit committee but also the responsible person

As for observe from the above table Auditors do not have a business relationship with the client, 66% strongly disagree, 28.3 disagree, 3% are neutral and 1% agree, indicating that the auditors have a business relationship with the client based on fieldwork.

4.3.4. Auditors experience

Table 4.4: Experience

IV. Experience								
		SA	A	N	DA	SDA	Mean	STD
11	Do you think technical knowledge of audit tasks enhances auditors' capability	Fre		9	34	54	4.46	.662
		%		9.1	34.3	54.5		
12	Do you think the number of years of auditing experience has influenced the audit practice	Fre		2	26	69	4.69	.507
		%		2.0	26.3	69.7		
13	Frequent exposure improves the auditor's skills	Fre		1	19	77	4.78	.438
		%		1.0	19.2	77.8		

Source: SPSS result

on the above table shows according to audit technical knowledge, tasks improve the ability of auditors 9.1% Neutral, 34.3% disagree and 55% strongly disagree Self-audit task does not increase the ability of auditors, but using the opportunities in each professional seminar conference helps to improve knowledge.

In the second sentence, auditors must have years of auditing experience to influence auditing practice, 2% were neutral and 26.3% disagreed, 70% strongly disagreed, this shows that years of auditing experience do not influence auditing practice.

Regarding the last sentence Exposure improves the skills of the inspector 1% were neutral, 19% disagreed and 78% strongly disagreed, meaning that exposure does not improve the skills of the auditors.

4.3.5. Auditors Certification

Table 4.5: Certification

V. Certification									
			SA	A	N	DA	SDA	Mean	STD
14	Do you think certification establish a reliable, standardizing for audit practice	Fre		1		31	65	4.65	.541
		%		1.0		31.3	65.7		
15	Is competency necessary to practice proper financial statement examination	Fre				22	75	4.77	.421
		%				22.2	75.8		

Source: SPSS result

In relation to certification, a reliable, standardized inspection practice must be established. The survey result shows that 31% disagree and 66% strongly disagree. This indicates that certification does not creates a reliable standardization of auditing practices

The table above shows the qualifications required for a proper audit of financial statements. 22% disagree and 76% strongly disagree. This means that the majority of respondents to the financial audit believe that the audit of financial statements is necessary for good auditing practice

4.3.6. The role and responsibilities of auditors

Table 4.6. Auditors role and responsibilities

VI. Role and responsibilities of auditor									
			SA	A	N	DA	SDA	Mean	STD
16	Is it the auditor's responsibility to correct accounting financial statement?	Fre				36	64	4.63	.486
		%				36.4	64.6		
17	Do private auditors are legally liable for subsequently discovery of misstated audited financial statement	Fre				25	72	4.74	.440
		%				25.3	72.7		
18	Do you think that auditor should assess management characteristics, to determine in the company's financial statement	Fre				21	76	4.78	.414
		%				21.2	76.8		
19	Do you consider that there should be an audit standard that would make auditors responsible	Fre				23	74	4.76	.428
		%				23.2	74.7		
20	Are auditors responsible if the company goes bankrupt?	Fre				25	72	4.74	.440
		%	0			25.3	72.7		

Source: SPSS result

From the table above it can be seen that auditors are not responsible for improving the accounting of the specific company as we can see from the answers of the respondents with percentage of 36.4% disagree and 64.6% strongly disagree, it shows that the auditors are doing their job and the auditors are not responsible for improving the accounting. Financial statement.

Regarding the auditor's legal responsibility for later detection of incorrect audited financial statements, 25% disagree and 73% strongly disagree, indicating that the auditor has no legal responsibility for detecting incorrect audited financial statements of the company.

Auditors should evaluate the characteristics of management, so 21% disagree and 77% strongly disagree with the company's financial statements. This shows that most of the respondents are like that because the auditor does not judge the character of the management.

23.2% do not agree with the audit standard that would hold auditors accountable, and 75% completely disagree, which means that the auditor is not accountable according to the respondents.

Of the last auditors responsible for the company bankruptcy, the majority of respondents disagreed 26% and strongly disagreed 73%, indicating that auditors have no responsibility for the bankruptcy of the company.

based on the above findings auditors respect the values of serving the public interest with the highest professional ethics and independence. Auditors must be professional, honest and fair in their work with the audited entity and the users of the auditors' work.

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

Table 4.7. Auditor's constraints

VII. Constraints exist on external auditors in attempt to exercise their responsibility									
			SA	A	N	DA	SDA	Mean	STD
	Lack of clients regular demand for audit service	Fre	0	0	1	17	17	4.80	.424
		%	0	0	1.0	17.2	17.8		
	Lack of cooperation from internal Auditors	Fre	0	0	0	35	62	4.64	.483
		%	0	0	0	35.4	62.4		
	Clients demand unqualified opinion	Fre	0	0	0	46	51	4.53	.502
		%	0	0	0	46.5	51.5		
	Fear of losing client	Fre	0	0	0	31	66	4.68	.469
		%	0	0	0	31.3	66.7		
	Poor record keeping of client's transaction	Fre	51	38	8	0	0	1.56	.645
		%	52.6	39.2	8.2	0	0		

Source: SPSS result

From the table above, it can be seen that it can be a limitation as we observe from the survey result 52.6% strongly agree, 39.2% agree, and 8.2% are neutral for poor reporting of customer transactions but the remaining factors are they are not point out as a limitation with a mean average value of 3.73 and a standard deviation of 0.376. The majority of respondents disagreed and disagreed.

4.4. Interview Result

What is the role of Accounting and auditing Board of Ethiopia in professional Ethics?

As the statutory body entrusted with regulating the accountancy profession in Ethiopia, each board member and staff of the AABE has a personal responsibility to demonstrate the highest ethical standards to inspire confidence and trust in one another and in the public.

Interviews with ERCA auditors on whether or not to use financial statements prepared by audit firms.

- Do you use audited financial statements prepared by audit firms for tax purpose? If the answer is yes which business group?

Accordingly, the ERCs interviewed agreed that auditors and tax officers use certified public accountants and financial statements prepared by external auditors to ensure the accountability of taxpayers collected to the government.

The directors also pointed out that the office has been using audited financial statements, which ease the work of ERCA's tax auditors and they have used it for many years and still use it. Interview results revealed that tax auditors also use audited financial statements for higher taxpayers.

In connection with the third question, is good auditing practice has a positive effect on the revenues of the government sector? Since accountants are usually the first line of defense against tax evasion, their ability to influence government revenue is their moral compass for playing with the control of whether accountants can work with clients to under-declare their income and underpay taxes. Although all the respondents are stated that they were not involved in such matters, there is strong evidence that such practices exist, but Dessalegn Getie (2009) supports this view by showing that auditors have a great impact on public revenue through good auditing practices and government revenue growth are interrelated

CHAPTER FIVE

5. SUMMARY, CONCLUSION AND RECOMMENDATION

5.1. Introduction

This research focuses on the legal responsibility of private audit firms in audit practice. This chapter briefly presents findings, conclusions, and recommendations to help external auditors, as well as internal audit managers and senior auditors, identify audit practice and apply in accounting financial statements.

5.2. Summary

The purpose of this study is to assess the opportunities and challenges of private external auditors to in audit practice. Accordingly, this research section summarizes the main findings of the study on accounting practice, challenges and future perspectives.

5.2.1. Auditor's practice

The researcher who refers to the auditors follows the code of ethics or professional ethics, the auditors discuss the role and responsibility of the auditors, and professional bodies on the principle of auditors' ethics and independence. The good conduct of auditors enhances public credibility and trust and enhances the assurance services provided by private auditing firms unethical behaviour results in poor audit quality, which directly affects the public's credibility and trust - in the services provided by private auditing firms.

5.2.2. Opportunities of Auditors

The research finding regarding the opportunities shows that the External auditors should be provided with continuous capacity building training to develop their knowledge of the quality audit service function so that they can fulfill their legal responsibilities and a development program should be dedicated to auditors specialized in audit quality.

5.2.2 Challenges of Auditors

The core problem is a conflict of interest between the company's owners (shareholders) and management to manage the activities of the companies whose owners are compensated for the management services provided to them and poor transaction record of client's.

5.3. Conclusion

This study aims to assess the audit practice of private audit firms in Ethiopia in audit practicing studies were reviewed and their responses were analyzed. Based on this, the study confirmed that audit firms are an effective tool in solving unethical responsibility in the financial statements of the clients.

A question has been raised as to whether private audit firms are providing their professional services to the public to maintaining their independence and evaluated the implementation of professional ethics and independence law and decided to identify the basic principles that are not met by the audit industry, the risk factors, sources and types of risks that affect non-compliance with professional ethics, and identify those that cause and harm. Private audit firms lead to independence from their clients, the impact of non-compliance with professional ethics on the quality of audit services provided by them, the role of negotiation in the current audit environment, regulatory and professional ethics, and finally, the expectation of the new financial reporting decree of the private audit firm.

The results of the survey show that auditors are responsible for audit practice and audit quality service. This study identified the principle of auditors are legally responsible for subsequent misstatements in audited financial statements.

Auditors cannot perform with overconfidence and complete lack of objectivity in the auditors, management, and employees, the auditor's lack of focus on audit quality the management's lack of a assess the accounting financial statement .

Finally, this empirical study was conducted to investigate in depth the factors that may influence the auditor's expert performance in detecting fraud. The results of the survey showed that external auditors generally had positive perceptions of professional ethics assurance, practical experience, training, audit service quality and independence. When SPSS Version 20 analysis was applied to auditor expert performance external auditors, the value was a positive relationship with enhance audit practice

5.4. Recommendations

The criteria for an applicant for an audit firm license must be competence and independence. The audit association must have qualified auditors. A qualification related to a specific type of certificate, a predetermined number of years of experience, and experience that ensures his independence from all charges. All audit firms, regardless of audit firm size, must be regularly and consistently audited to meet these requirements within a given time frame. AABE should be in a strong position to consider these requirements in the bidding process Permit.

Private audit firms and AABE should pay special attention to improving the qualifications of auditors through various arrangements, such as continuing training and assisting working auditors with certification. The perspective of this study, which focuses on conceptual rather than mechanistic factors, paves the way for researchers to think critically and scientifically in a process where the factors influencing audit quality are fundamentally at the forefront.

Private audit firms in Ethiopia and AABE must pay attention to factors such as independence and role and responsibility when designing their audit procedures so that shareholders have confidence in the audited financial statements.

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APPENDIXES

Appendix 1: Questionnaire

St. Mary University
School of Post graduate studies
Department of Accounting and Finance
Questionnaire to Be Filled by Selected External audit firms

Dear Sir/Madam:

The enclosed questionnaire is designed to gather information about the “**the assessment of external auditor in audit practice**”. The questionnaire has been sent to all the selected audit firms which are working in this field. The information you provide in response to the questionnaire will be used as part of the data needed for the study: The determinate factors external audit firms to reduce fraud.

The study is being conducted as part of the undersigned researcher’s study for the Master of Science in Accounting and Finance at St. Mary University, Department of accounting & finance.

The result of the study is expected to contribute to the understanding and fight to reduced fraud their financial statement the business entity

Please note that there is no need of writing your name on the questionnaire.

I would like to assure you that the information you provide will be treated as strictly confidential and your participation in this study is greatly valuable.

Your honest and thoughtful responses are highly appreciated.

Kind Regards,

For any comment and questions, please contact me: +251912120944

E-mail: ELGODISLOVE@YAHOO.COM

Elfinesh Tsegaw

Part I: General Information:

Please indicate the following by ticking (√) on the given spaces of the response options:

General Information

1 Gender of the respondents

Male	<input type="checkbox"/>
Female	<input type="checkbox"/>

2 Age

25-30	<input type="checkbox"/>	31-35	<input type="checkbox"/>
36-40	<input type="checkbox"/>	41-45	<input type="checkbox"/>
Above 45	<input type="checkbox"/>		

3 Educational Level

ACCA Certified	<input type="checkbox"/>	University Bachelor Degree	<input type="checkbox"/>
Master's Degree	<input type="checkbox"/>		

4 Year of Service

5-10 years	<input type="checkbox"/>
11-15 Years	<input type="checkbox"/>
above 15 Years	<input type="checkbox"/>

Part II: Questionnaires

Please kindly indicate the appropriate scale for your opinion by ticking (√) on the spaces that indicate your choice from the options that range from 5 Strongly Disagree (SDA), 4DisAgree (A), 3 Neutral (N), 2 Agree (DA) to 1 Strongly Agree (SA)

		Scales						
		SA	A	N	DA	SDA	Mean	ST D
I. Audit service								
1	The audit fee received by the auditor’s clients for the audit services provided by them does not have a significant impact on the quality.							
2	Audit fieldwork results may be summarized and an audit report issued without engagement sufficient seniority.							
3	With the time interval is there a general meeting with the clients to express an opinion in accordance with the ACCA guidelines.							
II. Professional ethics of auditor								
4	Do you agree that every professional accountant should follow the basic principles of the professional code of conduct?							
5	Assume that Ethiopia private audit firms apply the ethical standards set forth by the International Ethical Standards Board for Accountants (IESBA).							
5.1	Objectivity (Are auditors free from bias?)							
5.2	Credibility (auditors are trustworthy)							
5.3	Professional competence and proper care							
5.4	Confidentiality							
5.5	Professional behavior							
6	An auditor has the ability to assess the level of ethical risk they face during the audit process.							
III. Independence of auditors								
7	Do you believe that the auditor engaged in Ethiopia is independent in thought and appearance?							
8	Auditors do not have a financial interest in the audit client							

9	Auditors disclose only to management and the audit committee						
10	Auditors do not have a business relationship with the client						
IV. Experience							
11	Do you think technical knowledge of audit tasks enhance auditors capability						
12	Do you think the number of years of auditing experience have influence in audit practice						
13	Frequent exposure to improves the auditor's skills						
V. Certification							
	Do you think certification establish a reliable, standardizing for audit practice						
	Is competency necessary to practice proper financial statement examination						
VI. Role and responsibilities of auditor							
15	Is it the auditor's responsibility to correct accounting financial statement?						
16	Do Private auditors are legally liable for subsequently discovery of misstated audited financial statement?						
17	Do you think that auditor should assess management characteristics, to determine in company financial statement						
18	Do you consider that there should be an audit standard that would make auditors responsible						
19	Are auditors responsible if the company goes bankrupt?						
VII. Constraints exist on external auditors in attempt to exercise their responsibility							
20	Lack of clients regular demand for audit service						
21	Lack of cooperation from internal Auditors						
22	Clients demand unqualified opinion						
23	Fear of losing client						
24	Poor record keeping of client's transaction						

1. Question for AABE

What is the role of Accounting and auditing Board of Ethiopia in professional Ethics?

2. Question for ERC

Do you use audited financial statements prepared by audit firms for tax purpose? If the answer is yes which business group?

3. Interview for External Audit Firm

Does auditing practice has a positive effect on the revenues of the government sector?

Appendix 2:- Frequency table and statically analysis

Gender of the respondents

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Male	54	55.7	55.7	55.7
Valid Female	43	44.3	44.3	100.0
Total	97	100.0	100.0	

Educational Level

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Bachelor Degree	56	57.7	57.7	57.7
Valid Master's Degree	19	19.6	19.6	77.3
Valid ACCA Certified	22	22.7	22.7	100.0
Total	97	100.0	100.0	

Year of Service

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid 5-10 years	51	52.6	52.6	52.6
Valid 11-15 years	16	16.5	16.5	69.1
Valid above 15 years	30	30.9	30.9	100.0
Total	97	100.0	100.0	

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
The audit fee received by the auditor's clients for the audit services provided by them does not have a significant impact on the quality.	97	2	5	4.66	.538
With the time interval is there a general meeting with the clients to express an opinion in accordance with the ACCA guidelines.	97	4	5	4.65	.480
Audit fieldwork results may be summarized and an audit report issued with engagement sufficient seniority	97	3	5	4.34	.762
Valid N (list wise)	97				

The audit fee received by the auditor's clients for the audit services provided by them does not have a significant impact on the quality.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Agree (A)	1	1.0	1.0	1.0
	Disagree (D)	30	30.3	30.9	32.0
	Strongly Disagree (SD)	66	66.7	68.0	100.0
	Total	97	98.0	100.0	
Missing	System	2	2.0		
Total		99	100.0		

With the time interval is there a general meeting with the clients to express an opinion in accordance with the ACCA guidelines.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree (D)	34	34.3	35.1	35.1
	Strongly Disagree (SD)	63	63.6	64.9	100.0
	Total	97	98.0	100.0	
Missing	System	2	2.0		
Total		99	100.0		

Audit fieldwork results may be summarized and an audit report issued with engagement sufficient seniority

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Neutral (N)	17	17.2	17.5	17.5
	Disagree (D)	30	30.3	30.9	48.5
	Strongly Disagree (SD)	50	50.5	51.5	100.0
	Total	97	98.0	100.0	
Missing	System	2	2.0		
Total		99	100.0		

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Do you agree that every professional accountant should follow the basic principles of the professional code of conduct?	97	2	5	4.22	.725
Assume that Ethiopia private audit firms apply the ethical standards set forth by the International Ethical Standards Board for Accountants (IESBA).	97	3	5	4.46	.578
Objectivity (Are auditors free from bias?)	97	3	5	4.65	.501
Credibility (auditors are trustworthy)	97	3	5	4.29	.676
Professional competence and proper care	97	3	5	4.52	.723
Confidentiality	97	3	5	4.52	.614
Professional behavior	97	3	5	4.62	.529
An auditor has the ability to assess the level of ethical risk they face during the audit process.	97	4	5	4.56	.499
Valid N (listwise)	97				

Do you agree that every professional accountant should follow the basic principles of the professional code of conduct?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Agree (A)	1	1.0	1.0	1.0
	Neutral (N)	14	14.1	14.4	15.5
	Disagree (D)	45	45.5	46.4	61.9
	Strongly Disagree (SD)	37	37.4	38.1	100.0
	Total	97	98.0	100.0	
Missing	System	2	2.0		
Total		99	100.0		

Assume that Ethiopia private audit firms apply the ethical standards set forth by the International Ethical Standards Board for Accountants (IESBA).

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Neutral (N)	4	4.0	4.1	4.1
	Disagree (D)	44	44.4	45.4	49.5
	Strongly Disagree (SD)	49	49.5	50.5	100.0
	Total	97	98.0	100.0	
Missing	System	2	2.0		
Total		99	100.0		

Objectivity (Are auditors free from bias?)

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Neutral (N)	1	1.0	1.0	1.0
	Disagree (D)	32	32.3	33.0	34.0
	Strongly Disagree (SD)	64	64.6	66.0	100.0
	Total	97	98.0	100.0	
Missing	System	2	2.0		
Total		99	100.0		

Credibility (auditors are trustworthy)

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Neutral (N)	12	12.1	12.4	12.4
	Disagree (D)	45	45.5	46.4	58.8
	Strongly Disagree (SD)	40	40.4	41.2	100.0
	Total	97	98.0	100.0	
Missing	System	2	2.0		
Total		99	100.0		

Professional competence and proper care

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Neutral (N)	13	13.1	13.4	13.4
	Disagree (D)	21	21.2	21.6	35.1
	Strongly Disagree (SD)	63	63.6	64.9	100.0
	Total	97	98.0	100.0	
Missing	System	2	2.0		
Total		99	100.0		

Confidentiality

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Neutral (N)	6	6.1	6.2	6.2
	Disagree (D)	35	35.4	36.1	42.3
	Strongly Disagree (SD)	56	56.6	57.7	100.0
	Total	97	98.0	100.0	
Missing	System	2	2.0		
Total		99	100.0		

Professional behavior

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Neutrla (N)	2	2.0	2.1	2.1
	Disagree (D)	33	33.3	34.0	36.1
	Strongly Disagree (SD)	62	62.6	63.9	100.0
	Total	97	98.0	100.0	
Missing	System	2	2.0		
Total		99	100.0		

An auditor has the ability to assess the level of ethical risk they face during the audit process.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree (D)	43	43.4	44.3	44.3
	Strongly Disagree (SD)	54	54.5	55.7	100.0
	Total	97	98.0	100.0	
Missing	System	2	2.0		
Total		99	100.0		

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Do you believe that the auditor engaged in Ethiopia is independent in thought and appearance?	97	3	5	4.67	.535
Auditors do not have a financial interest in the audit client	97	3	5	4.38	.567
Auditors disclose only to management and the audit committee	97	3	5	4.62	.509
Auditors do not have a business relationship with the client	97	2	5	4.62	.603
Valid N (listwise)	97				

Do you believe that the auditor engaged in Ethiopia is independent in thought and appearance?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Neutral (N)	3	3.0	3.1	3.1
	Disagree (D)	26	26.3	26.8	29.9
	Strongly Disagree (SD)	68	68.7	70.1	100.0
	Total	97	98.0	100.0	
Missing	System	2	2.0		
Total		99	100.0		

Auditors do not have a financial interest in the audit client

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Neutral (N)	4	4.0	4.1	4.1
	Disagree (D)	52	52.5	53.6	57.7
	Strongly Disagree (SD)	41	41.4	42.3	100.0
	Total	97	98.0	100.0	
Missing	System	2	2.0		
Total		99	100.0		

Auditors disclose only to management and the audit committee

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Neutral (N)	1	1.0	1.0	1.0
	Disagree (D)	35	35.4	36.1	37.1
	Strongly Disagree (SD)	61	61.6	62.9	100.0
	Total	97	98.0	100.0	
Missing	System	2	2.0		
Total		99	100.0		

Auditors do not have a business relationship with the client

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Agree (A)	1	1.0	1.0	1.0
	Neutral (N)	3	3.0	3.1	4.1
	Disagree (D)	28	28.3	28.9	33.0
	Strongly Disagree (SD)	65	65.7	67.0	100.0
	Total	97	98.0	100.0	
Missing	System	2	2.0		
Total		99	100.0		

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Do you think technical knowledge of audit tasks enhance auditors capability	97	3	5	4.46	.662
Do you think the number of years of auditing experience have influence on audit practice	97	3	5	4.69	.507
Frequent exposure to improves the auditor's skills	97	3	5	4.78	.438
Valid N (listwise)	97				

Do you think technical knowledge of audit tasks enhance auditors capability

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Neutral (N)	9	9.1	9.3	9.3
	Disagree (D)	34	34.3	35.1	44.3
	Strongly Disagree (SD)	54	54.5	55.7	100.0
	Total	97	98.0	100.0	
Missing	System	2	2.0		
Total		99	100.0		

Do you think the number of years of auditing experience have influence on audit practice

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Neutral (N)	2	2.0	2.1	2.1
	Disagree (D)	26	26.3	26.8	28.9
	Strongly Disagree (SD)	69	69.7	71.1	100.0
	Total	97	98.0	100.0	
Missing	System	2	2.0		
Total		99	100.0		

Frequent exposure to improves the auditor's skills

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Neutral (N)	1	1.0	1.0	1.0
	Disagree (D)	19	19.2	19.6	20.6
	Strongly Disagree (SD)	77	77.8	79.4	100.0
	Total	97	98.0	100.0	
Missing	System	2	2.0		
Total		99	100.0		

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Do you think certification establish a reliable, standardizing for audit practice	97	2	5	4.65	.541
Is competency necessary to practice proper financial statement examination	97	4	5	4.77	.421
Valid N (listwise)	97				

Do you think certification establish a reliable, standardizing for audit practice

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Agree (A)	1	1.0	1.0	1.0
	Disagree (D)	31	31.3	32.0	33.0
	Strongly Disagree (SD)	65	65.7	67.0	100.0
	Total	97	98.0	100.0	
Missing	System	2	2.0		
Total		99	100.0		

Is competency necessary to practice proper financial statement examination

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree (D)	22	22.2	22.7	22.7
	Strongly Disagree (SD)	75	75.8	77.3	100.0
	Total	97	98.0	100.0	
Missing	System	2	2.0		
Total		99	100.0		

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Is that the auditor's responsibility to correct accounting financial statement?	97	4	5	4.63	.486
Do Private auditors are legally liable for subsequently discovery of misstated audited financial statement?	97	4	5	4.74	.440
Do you think that auditor should assess management characteristics, to determine companies accounting financial statement	97	4	5	4.78	.414
Do you consider that there should be an audit standard that would make auditors responsible?	97	4	5	4.76	.428
Are auditors responsible if the company goes bankrupt?	97	4	5	4.74	.440
Valid N (listwise)	97				

Is that the auditor's responsibility to correct accounting financial statement?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree (D)	36	36.4	37.1	37.1
	Strongly Disagree (SD)	61	61.6	62.9	100.0
	Total	97	98.0	100.0	
Missing	System	2	2.0		
Total		99	100.0		

Do Private auditors are legally liable for subsequently discovery of misstated audited financial statement?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree (D)	25	25.3	25.8	25.8
	Strongly Disagree (SD)	72	72.7	74.2	100.0
	Total	97	98.0	100.0	
Missing	System	2	2.0		
Total		99	100.0		

Do you think that auditor should assess management characteristics, to determine companies accounting financial statment

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree (D)	21	21.2	21.6	21.6
	Strongly Disagree (SD)	76	76.8	78.4	100.0
	Total	97	98.0	100.0	
Missing	System	2	2.0		
Total		99	100.0		

Do you consider that there should be an audit standard that would make auditors responsible?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree (D)	23	23.2	23.7	23.7
	Strongly Disagree (SD)	74	74.7	76.3	100.0
	Total	97	98.0	100.0	
Missing	System	2	2.0		
Total		99	100.0		

Are auditors responsible if the company goes bankrupt?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree (D)	25	25.3	25.8	25.8
	Strongly Disagree (SD)	72	72.7	74.2	100.0
	Total	97	98.0	100.0	
Missing	System	2	2.0		
Total		99	100.0		

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Lack of clients regular demand for audit service	97	3	5	4.80	.424
Lack of cooperation from internal Auditors	97	4	5	4.64	.483
Clients demand unqualified opinion	97	4	5	4.53	.502
Fear of losing client	97	4	5	4.68	.469
Poor record keeping of client's transaction	97	1	3	1.56	.645
Valid N (listwise)	97				

Lack of clients regular demand for audit service

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Neutral (N)	1	1.0	1.0	1.0
Valid Disagree (D)	17	17.2	17.5	18.6
Valid Strongly Disagree (SD)	79	79.8	81.4	100.0
Valid Total	97	98.0	100.0	
Missing System	2	2.0		
Total	99	100.0		

Lack of cooperation from internal Auditors

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Disagree (D)	35	35.4	36.1	36.1
Valid Strongly Agree (SD)	62	62.6	63.9	100.0
Valid Total	97	98.0	100.0	
Missing System	2	2.0		
Total	99	100.0		

Clients demand unqualified opinion

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Disagree (D)	46	46.5	47.4	47.4
Valid Strongly Disagree (SD)	51	51.5	52.6	100.0
Valid Total	97	98.0	100.0	
Missing System	2	2.0		
Total	99	100.0		

Fear of losing client

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree (D)	31	31.3	32.0	32.0
	Strongly Disagree (SD)	66	66.7	68.0	100.0
	Total	97	98.0	100.0	
Missing	System	2	2.0		
Total		99	100.0		

Poor record keeping of client's transaction

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Agree (SA)	51	52.6	52.6	52.6
	Agree (A)	38	39.2	39.2	91.8
	Neutral (N)	8	8.2	8.2	100.0
	Total	97	100.0	100.0	

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Poor record keeping of client's transaction	97	1	3	1.56	.645
Valid N (listwise)	97				